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COMMERCE & SOCIETY

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A SHORT HISTORY OF TRADE AND ITS EFFECTS ON CIVILIZATION

BY

W. F. OAKESHOTT

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PREFACE

IT is generally thought desirable that economics should play a larger part in the curriculum of schools and training colleges than it has done in the past, if education is to be brought into touch with contemporary social and economic problems. But the question of approach is difficult, for the 'dismal science' is not only superficially dismal but has also an increasing tendency to be purely scientific, to avoid human issues and concentrate upon abstractions. That brilliant and valuable work is being done by economists no one would deny, nor that pure economics may be, even in a school, a very valuable mental training. The problem is simply what form the introduction to such work should take for the majority. In the study of economic history the issues are real, though conclusions may be difficult or impossible. The history of banking is something definite, the theory of credit is not. The revolution in banking practice in the seventeenth and early eighteenth centuries which made the industrial and commercial revolutions possible, established in a simple form the relationship between banking, commerce, and industry which still persists, and to grasp it in that simple form will certainly help towards understanding its present complexity.

There will inevitably be mistakes of judgement and fact in an attempt to cover as much ground as this book tries to do. But there is a gain as well as a loss in an extensive treatment, since the development of foreign markets (for example), the invention of refrigeration, the opening up of the prairie lands, or the beginnings of industrialization in the Far East, are all vitally relevant to a grasp of the present economic situation. One result of the specialization which is so marked a feature of modern research has been to emphasize the comprehensiveness of history. If we are in any sense to see the past as a whole, the standpoint must not be narrow. Accordingly this book is rather an attempt—on a very modest scale—to sketch the history of commerce as part of the history of western society, than a summary of facts and figures. It is generally admitted that commercial motives may influence politics, and any history of commerce would necessarily try to estimate the part which it has played, for instance, in modern imperialism. But it is equally clear that the commercial factor affects society in more personal ways also; that it may influence taste, learning, and religion just as they have their reaction upon commerce, and this book tries to show something of this interrelation.

I owe a great debt to those who read it, or parts of it, in typescript or in proof; to Mr. C. R. M. F. Cruttwell, Dr. A. T. P. Williams, Dr. Gilbert Slater (whom I have also to thank for permission to reprint the figures on p. 407 from his work *The Growth of Modern England*); Professor Carr-Saunders (to whom I am indebted, not only for suggestions on the chapters which he read and the diagram opposite p. 215, but for the realization that a statistical table may stand for human realities), Miss Dymond, Mr. W. D. Hogarth, and Mr. E. E. Sabben-Clare. None of these, needless to add, is responsible for mistakes that remain, but their help made it possible to correct many others, and suggested many considerable improvements. It is not practicable to make a list of those books that I have freely used. If I single out the first two volumes of Professor Clapham's *Economic History of Modern Britain* it is because I have learnt not only ideas and facts but also method from that masterly work. I must also mention, what should perhaps have come first, my debt to two great teachers at whose feet it has been my good fortune to sit, Mr. P. M. G. Maclagan and Mr. D. C. Somervell. It has been humiliating for me invariably to discover, on the rare occasions when I thought I had hit on a neat phrase, that it was a recollection from the latter. He may disagree with some things that he finds in this book, but he cannot disclaim ultimate responsibility for it.

W. F. O.

DESCRIPTION OF PLATES

I. Map Showing the Growth of Geographical Knowledge in the Greek Period *facing p.* 7

In the 4th century the regions inhabited by the Greeks were enormously extended by Alexander the Great's conquests. There were scattered settlements of Greeks and Macedonians subsequently throughout the country through which he travelled; and Egypt, Syria, and Asia Minor were prominent additions to the Greek-speaking world.

II. Ptolemy's Map of the World *facing p.* 34

Ptolemy's map of the known world, drawn at Alexandria, *c.* A.D. 140. Ptolemy's maps are the only complete series of ancient maps which survive. He recognized that the world was a sphere and to take account of this devised a system of projection which can be seen in this map of the northern hemisphere. The bulk of his work, which was written in Greek, consists of place-lists, giving latitude and longitude.

Ptolemy's data for the Mediterranean region are accurate, but beyond that their value varies, no doubt, roughly according to the familiarity of Romano-Greek merchants with the regions concerned. He was unaware that India was a peninsula, but knew of the Indus and Ganges and of Ceylon, which he represented as too large. His calculation for the length of the Eurasian land mass was too high, and for the circumference of the globe too low—he did not accept Eratosthenes' calculation (p. 20)—so that he greatly underestimated the distance westwards from Spain to China. His work, like most Greek science, was unknown in Western Europe during the Middle Ages, though known to Arab geographers; its translation into Latin (about 1420) revived the study of geography, and Columbus relied on a Greek estimate of the distance westwards to China (p. 102).

III. Venetian, Genoese, and Hanseatic Trade in the Later Middle Ages *facing p.* 64

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V. Literacy and Industrialization *facing p.* 274

These two maps show the general close correspondence between literacy and industrialization. Note, however, the discrepancy between the two maps in Denmark and the Scandinavian countries. It seems that there are three main reasons for the spread of elementary education. (i) The belief that education is good in itself. This is probably the reason for the high degree of literacy in the Scandinavian countries, and has certainly played a great part in educational movements all over the world. (ii) Industrial and commercial demand for educated workers. This has also played a great formative part in education, and the kind of education for which it calls is very different from that which would naturally develop if education were given for its own sake. It is significant that the initiative in the scheme for raising the elementary school leaving age in England should have been due to the first factor, while its acceptance by the government has been due to the second—recognition of the part the scheme might play in reducing unemployment and the powerful support given to it by leaders in industry and commerce, who appreciate the worth of labour more thoroughly educated. (iii) Nationalism. Receptivity to propaganda is greatly increased by education, and modern nationalist governments rely more and more on the possibility of exploiting this. The spectacular reduction now going on in the illiteracy figures in Russia is partly due to this, though (i) and (ii) have undoubtedly also played a part in it. There is a point beyond which education leads to criticism rather than receptivity, and the nationalist dictatorships have not, on the whole, been patrons of the universities.

VI. Foreign Investments of Britain, France, and Germany in 1914 *facing p.* 278

(i) European investments do not include investments in Russia, which are shown separately.

(ii) Asiatic investments include investments in India, China, Indo-China, and Malay. Two-thirds of the British total was invested in India.

(iii) African investments include investments in Egypt.

(iv) In the case of N. America French and German totals include both U.S.A. and Canada. British investments in U.S.A. and in Canada are separately shown.

VII. Budget Expenditure 1765, 1825, 1925 *facing p.* 286

This diagram illustrates the changing functions of the State during the past 170 years. In the eighteenth century the State existed mainly for the purposes of defence. In the twentieth, though that is still part of its business, it is a much smaller part, and the State exists also to provide a vast number of social necessities and social amenities for its members. The proportion of the revenues spent on this is in fact far larger than that shown in this figure, for it shows only the revenues which are centrally collected. The bulk of the rates collected locally are spent on social services; in 1925–6 their amount was estimated at £145½ million, nearly twice as much as the amount expended by the central government; and over and above all this are the huge sums which pass through the hands of State undertakings such as the Post Office, municipal water, gas, electric light and transport undertakings, &c. For some details relating to such expenditure in Manchester, see p. 409. Note, however, that both in 1825 and in 1925 'service of debt' is in fact a form of military and naval expenditure. It is through wars that the national debt is incurred.

VIII A. U.S.A. RIVERS NAVIGABLE BY STEAMBOAT, 1860 *fac. p.* 316.

VIII B. N.W. CANADA, SHOWING THE ROUTES OF THE FUR-TRADER EXPLORERS *facing p.* 316

IX. WORLD POPULATION *facing p.* 354

This diagram is introduced to show the importance of the Orient as a market. Though the wealth per head of the Indian or Chinese peasant is low, such vast numbers mean an enormous potential market for cheap goods. There are nearly five times as many Indians in the British Empire as there are white men—including the population of Great Britain itself. The Japanese have specialized in the production of cheap goods, and they have a peculiar advantage in the cheapness of labour (though see p. 403–4 on this). They have on the whole been remarkably successful in entering the Oriental market; cf. p. 359.

X. SHANGHAI IN THE 19TH AND 20TH CENTURIES *facing p.* 364

The growth in the trade of Europe and the U.S.A. with China can be well illustrated by the growth of Shanghai—now one of the largest cities in the world. This diagram shows the steps by which the area allotted to foreign mercantile communities has increased. Notice the scale of miles.

XI. BRITISH OCEAN-GOING SHIPPING ON 1 JANUARY 1912 *fac. p.* 374

Each ship is represented by a single dot. Dots on land represent ships in harbour or on river traffic. In many instances it has been necessary to show this by figures in brackets after the names—thus: St. John's [17]. [Simplified from maps 1 and 2 in 'The Merchant Navy' (*Official History of the War*), Hurd, Vol. I. In the original maps approximate tonnage is given.] Note that in 1912 the Panama Canal was not yet open, and a certain proportion (though not a very large one in the case of British tonnage) of the shipping using the route to S. America has been diverted to it.

XII. OUTPUT OF MACHINERY BEFORE THE WAR AND IN 1928 *facing p.* 389

Note that 1928 was a peak year, and that in a time of depression the output of machinery, 'producers' goods', is more seriously affected than the output of 'consumers' goods'. The salient feature of the diagram is the disparate increase in U.S.A. production as compared with production in Europe. Before the war the output of machinery in the United States was less than that of Great Britain or Germany, in 1928 it was approximately equal to both of these put together.

XIII. THE WORLD'S MERCHANT MARINE *facing p.* 396

Showing the increase in the world's merchant marine, 1850–1929, and the proportionate distribution of that increase between various countries. Notice that the world's merchant marine was about seven times as great in 1929 as it had been in 1850, and nearly three times as great as it had been in 1900. In 1913 4/9 of the world's sea-borne trade was carried in British owned ships, and this was, and is, an important item in the 'invisible' balance of trade for Great Britain (cf. pages 393–4). In 1929 the proportion had dropped to less than 3/9. Other countries not only own a greater tonnage than in the pre-war period, but also build more (cf. p. 382).

BOOK I

COMMERCE IN ANCIENT AND MEDIEVAL SOCIETY

I

ANCIENT TIMES

I. BEFORE THE GREEKS

COMMERCE is older than history. Modern archaeological discoveries reach back into the past far beyond the time of the earliest historians known to us and they have shown the immense antiquity of trade. The excavator of Abraham's city, Ur of the Chaldees, has recently claimed that towards the end of the second millennium B.C. Ur had between half a million and a million inhabitants and traded with regions as far east as the Pamirs for lapis lazuli, and as far west as Syria for silver. Some of its connexions were overseas. It had a considerable harbour, and there is no doubt that its trade relations extended to the Indus valley, if no farther. Everything indicates that there was a considerable commercial class, not merely a small aristocracy with large numbers of slaves; and literally thousands of its commercial documents have been found.

It was many centuries before any city of Europe or the Mediterranean region attained such a degree of material civilization. The only communities in Europe at that time to approach it (though, indeed, their activities were not on a scale comparable to those of Ur) were the people who lived in Crete in the third and second millennium B.C. Cnossos, the most impressive of their settlements, has produced a large number of documents which are thought to be commercial in character, though the language in which they are written is unfortunately not yet decipherable. We know of this Cretan civilization from Greek legend as well as from the recent finds. There was the legend of Theseus and of the time when Athens had to pay a tribute of youths and maidens for the Cretan Minotaur; the legend of King Minos, the great lawgiver, so just that he became judge of the dead as he had been judge of the living; the legend of the supremacy of the Cretan navy in early times; the legend of the superb craftsmanship of Daedalus, a story which must have originated from objects of Cretan work surviving into the Greek period. On a tomb in Egypt there is a picture of the 'Keftiu' carrying objects which are almost certainly Cretan, and to the extent of Cretan connexions with Egypt in this remote period many finds bear witness. We know that the Cretans, though unfamiliar with the use of money (a much later invention, as we shall see) had a system of weights and measures. Their wares have been found in Greece and as far west as Sicily at least; and what is apparently the seal of a Cretan merchant, showing a horse carried on a ship, suggests that they may have traded many other things besides the stone and pottery vessels and jewellery which alone have survived. Indeed, there still exists the record of an order for timber—cedars from Lebanon—which was to be carried to Egypt on Cretan ships about the year 1467 B.C. We know very little of Cretan society, but it is evident that trade played an important part in Cretan prosperity, and it looks as though King Minos, in an age when piracy and trade were not always very distinct, succeeded in distinguishing between them.

Some time about 1400 B.C. the Palace of Cnossos, as the result of some great disaster, fell into ruins. It has often been suggested that an attack by Achaeans may have been responsible for the destruction of its power. These Achaeans came from the great 'Mycenaean' settlements of Greece, where there had been settlements for some hundreds of years—settlements which seem to have owed their origin to Cretan enterprise, though their later inhabitants were of a different racial character, and produced buildings of different types from those known in Crete. They were certainly rich. Mycenae was known to Homer as a city of much gold. When some fifty years ago the circular burial-ground within the castle walls at Mycenae was excavated, there were found the bodies of kings with masks of beaten gold covering their faces, daggers inlaid with gold and silver at their sides, gold drinking cups, and disks of gold that covered their clothes like fine golden armour. But their gains were probably ill-gotten. Sacking cities is often mentioned in the *Odyssey* as the obvious remedy for an empty treasury. The knowledge of writing seems virtually to have disappeared from the Greek world after the fall of Cnossos, which does not look as though the Mycenaeans cultivated over-diligently the arts of peace. Greek tradition knew of one great Achaean marauding expedition, the siege and sack of Troy, and here, as in so many instances, the uncovering of the ruins has shown the general truth of tradition and has shown that Troy was indeed sacked—though it may well be that the matchless beauty of Helen was not the only prize. Recently, too, Hittite writings from farther south in Asia Minor have been deciphered and seem to show that about the same time (*c.* 1180 B.C.) the wealth of the Hittites was the objective of another such Achaean raid. And, lastly, Egyptian records speak of the raids of the Achaiusha on Egypt. It was a time when, indeed, in the phrase used by a contemporary Egyptian, 'the isles were troubled'. To the man who used this phrase, whose country already looked back on a past as remote as Julius Caesar from our own day, a country in which the last great imperial and artistic revival was now dying, it may well have seemed that civilization was about to be blotted out. It was an age of the wanderings of peoples, an age of instability and violence, comparable to that of the Vikings in later times, and in it such commercial security as the Cretans had enjoyed was shattered.

Of the precise nature of the commerce of those remote periods very little that is definite can be said, and archaeological discoveries are in some respects a dangerous guide. Some Egyptian beads found their way into the grave of a stone-age chieftain buried in an English long barrow, but the discovery of these does not necessarily prove direct commercial contact. Similarly the excavator of Troy found in a position which showed that it must have been lost about 2000 B.C. a piece of white nephrite, a stone which does not occur nearer than China. In the face of such discoveries it is impossible to deny that indirect contacts at least were established over great distances in the very remote past.

On the other hand, the impression that we get from the poems of Homer, which can perhaps be legitimately used as an indication of the conditions of this time, is of the smallness of the scale of ordinary commerce. To the writer of the *Odyssey* the merchant was normally a Phoenician. Ships were small, generally no larger than an open fishing boat. They used sails when the wind was favourable, which meant only when there was a following wind, since the art of sailing close to the wind was not developed until the invention of the fore-and-aft rig in the sixteenth century A.D. They depended largely on rowing, and thus long voyages across the open sea were almost impossible, since ships were not large enough to carry sufficient food for the large crews required for any extended period. As the Mediterranean is subject to severe storms it was until much later customary to keep close in shore and avoid open sea crossings if possible. Ulysses' sailors in the *Odyssey* are represented as sailing only during the day and in the late afternoon looking for a bay or creek where they could beach their ship for the night.[1] The Mediterranean is nearly tideless, so that boats need only be beached just out of reach of the waves.

II. PHOENICIANS AND GREEKS

When we reach the period following the great sea-raids, Greek traditions become more definite. The period following the Trojan wars was evidently a time of unrest in Greece as elsewhere. Invasion by less civilized (though Greek-speaking) tribes, the Dorians of tradition, took place, and they drove out much of the existing population from the area in which they settled, or reduced them to serfdom. Commerce must have been negligible in extent, and the one great literary work which has come down to us from Greece proper during this period is a treatise on farming. But Greece does not represent the whole area inhabited by Greeks at this time, for soon after the Trojan war the first phase of Greek expansion began, and by the time recorded history begins in the Aegean region, the western coast of Asia Minor is already occupied by Greek immigrants. One of the motives for this expansion must have been flight before the Dorian invasion, but the fugitives had chosen well. In the eighth and seventh centuries their settlements on the coast of Asia Minor, such as Miletus, were considerably more prosperous than was Greece itself. Material progress and political institutions developed with much greater rapidity here than in Greece,[1] where many districts, even in the fifth century, were still backward and where there was little ordered security before the sixth. The reason for this was that the cities of Asia Minor had a civilized hinterland while those of Greece did not. The kingdom of Lydia, which, with its sixth-century monarch Croesus, passed into Greek tradition as fabulously wealthy, had access to the sea only through valleys in which Greek settlement had taken place.

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[1] A change had come by the fifth century B.C., when though the ship of war was still rowed, the merchant ship began to depend on sails and to travel by night as well as by day—like the ship in which St. Paul travelled from Asia Minor to Italy. That this was so as early as the fifth century is shown by Herodotus' estimates of the distance travelled during the day and night by a merchantman.

During this first period of Greek expansion the seaborne commerce of the Mediterranean as a whole was indeed mainly in the hands of the Phoenicians. Their reputation as seamen was immense. It is said that a Phoenician ship commissioned by one of the Pharaohs sailed round Africa from the Red Sea to the Mediterranean, and there are certain circumstantial details in the account which could hardly have been invented. The story is probably true, and the feat is the greatest achievement of ancient seamanship. To Phoenician merchants there are a number of references in Homer, and we have a remarkable account of their activities in chap. xxvii of the Book of Ezekiel, written about 600 B.C. This is part of the prophecy of the destruction of Tyre, and speaks of the city under the image of a doomed merchant ship which has been built from material from all parts of the known world. 'They have taken cedars from Lebanon to make a mast for thee. Of the oaks of Bashan have they made thine oars . . . of fine linen with broidered work from Egypt was thy sail.' The writer speaks of the extent of Tyrian trade, of the silver, iron, tin, and lead from Tarshish,[1] slaves and bronze weapons from Ionia ('Javan' is the same word as Ionia) and Asia Minor, precious stones and rich stuffs from Syria, wheat, honey, and oil from Judah and Israel, wine and wool from Damascus, wool from Ionia, mainly, no doubt, Miletus. The list extends from the western Mediterranean to Arabia and Assyria. The Phoenician coast shared in an even greater degree than Asia Minor the advantages of a prosperous hinterland. It was the region through which Mesopotamia and successively cities such as Ur, Babylon, Nineveh, and again Babylon were in contact with the Mediterranean, and as the Egyptians were not a maritime race Egypt itself may almost be reckoned as Phoenician hinterland.

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[1] It was no doubt in Asiatic Greece that the poems of Homer crystallized into something like their present form.

The part which Phoenicians played in Greek commerce during this period steadily declined after the eighth century B.C. Greek tradition knew of 'Phoenician' settlements in Greece, but such settlements, whatever they may have been originally, did not long survive. The permanent contribution which the Phoenicians left behind in the Greek world was the alphabet. Their interests seem to have turned to the west as the Ionian Greeks began to conduct more of their own seaborne trade, and their permanent settlements in the western Mediterranean, in particular at Carthage and in Sicily, played an important part in later history.

[1] Generally regarded as Tartessus, west of the Straits of Gibraltar, though there are reasons for thinking that Etruria in Italy may be meant.

With the growth of a prosperous Ionia the second phase of Greek expansion began, some time in the eighth century; and in the following two centuries Greek settlers penetrated to the Black Sea, and colonized southern Italy and eastern Sicily, passing even farther west to Marseilles and Spain. The areas of settlement were conditioned apart from climatic limitations by two obstacles, Phoenician interests in the western Mediterranean, and Etruscan in central Italy. In 525 B.C., these two interests combined to prevent the Greeks from invading the regions with which they were particularly concerned, and the combination was effective. But the area left in the hands of Greek settlers was very large. When Aristotle made his collection of materials for the constitutional history of Greece in the fourth century B.C., he recorded the political institutions of something like 150 independent cities in many different parts of the Mediterranean region, and Marseilles in France or Syracuse in Sicily or Sybaris in Italy were as much part of sixth-century Greece as Sparta or Miletus.

The reasons for this second expansive movement seem to have been partly political, partly economic. The desire for political freedom led to emigration, and so also did the necessity of finding land; for both Greece and Asia Minor are mountainous countries which can support only a limited population. The valleys and plains are often reasonably fertile, but they are bounded by barren hills and mountains, so that with a growing population overseas expansion was inevitable. The direction which it took was no doubt largely governed by the discoveries of traders, and new settlements naturally greatly increased the scope of these traders, for many of them became markets to which the produce of the interior was brought for sale, while some of them set out to develop local resources, and Cyrene, for example, developed the cultivation of the herb silphium which commanded a high price in antiquity.

Some time soon after the Trojan war iron had come into use, and its discovery greatly aided material developments.

The age of Greek colonization is also the time in which the use of coinage spread. The invention of coined money was made in Asia Minor about 700 B.C. By stamping metal with a design of their own, cities gave a guarantee of its weight and purity, and the invention made possible great advances in specialization and enormously facilitated the growth of commerce. The more money there is in a state, the easier will exchange be, and the invention of coinage is as important an event in ancient commercial history as the new discoveries of gold in central America, Australia, and South Africa, in modern commercial history. The invention of coinage[1] is indeed one of the chief contributions of the Greeks to the progress of material civilization.

As we have seen, it was the cities of Asia Minor which first among the Greeks attained any degree of prosperity, and these cities were for a time the most important components of the Greek world. Largely from them came the impulse which scattered settlements in Italy and on the shores of the Black Sea, and the archaeological finds suggest that their trade was actually more vigorous than that of fifth-century Greece of the 'great age'. Through them oriental influences reached Greece. Early Greek statues often bear striking resemblances in pose and execution to Egyptian work, and some early Greek bronze work is hard to distinguish from work done in a similar period in Assyria and Phoenicia. The Asiatic Greek pedlars of the sixth century are contrasted by one of our authorities with the Persians, who despised merchants, and it is abundant proof of their activity that finds of pottery which clearly came from a single workshop are often made in many different regions. But the development of this promising commercial system was arrested by the growth of the Persian empire. This empire was not commercial but rather feudal in character. About the middle of the sixth century Sardis, the capital of Croesus' kingdom of Lydia, was sacked by Cyrus, and this is the first step in the rapid decline in the prosperity of Asia Minor. This explains what it would otherwise be hard to explain, that after the end of the sixth century Greek commercial expansion temporarily ceases. Power shifted from Asia Minor to Greece proper, which had no highly organized oriental powers in the interior. Greek commercial contact with the Orient declined and the effort made by Athens to establish a foothold in Egypt failed. Such commercial expansion as took place during the fifth century was confined to the trade of the Black Sea and Adriatic.

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[1] It is possible that, as Herodotus says, the first coins were struck by the Lydians whom he also claims to have invented 'peddling'. It was the Greeks, however, who saw the value of the invention and developed it.

The very fact that the cities of Greece proper had no rich foreign hinterland compelled them to develop their own manufactures, and in the seventh and sixth centuries Corinth, and in the sixth and fifth, Athens, produced manufactured goods of various kinds, while Athens began to supplement her own harvests, as modern industrial communities have to do, with corn imported mainly from south Russia. By the fifth century ships were regularly passing the Bosporus, bringing food, principally corn and salt fish, to Greece. In return, the Greeks exported manufactures. Greek pottery was found in such quantities in Italy that antiquaries of the eighteenth century believed that it was Italian in origin. Olive oil, also, which was then as it is now a staple element in eastern diet, was produced and exported from fifth-century Athens, and wine from many districts. We also hear of Greek slaves exported to the Orient. Herodotus has a story of a dealer from Chios who in the early years of the fifth century made a living by selling Greek slaves to an oriental court. In the time of the prophet Joel there was a traffic in slaves in the other direction, slaves from Judaea being sold to Greeks. To assess the value in ancient times of the 'perishable' commerce in slaves is difficult, but it was certainly very great, and may have overshadowed most other forms of trade.

In spite of this, as a marked difference between the history of Greece and that of most western countries must be reckoned the relatively small part played by commerce in the development of Greek urban life. The Greeks tended to group themselves into cities, not because it was convenient, but often in spite of the fact that it was inconvenient. Life to them meant social contacts, and to maintain these contacts it was worth living in a city even if one's livelihood was drawn from a farm outside it. The big religious and dramatic festivals were as much a primary reason for the existence of Greek cities as the necessity for holding markets. The necessity for security certainly played some part in urbanization, and farmers lived in cities because if they had lived outside them they would have lost their lives when their farms were ravaged by hostile forces. The city, once formed, provided a market for surplus farm-produce, but such surplus was seldom very large and farms were generally economically self-contained, constructing most of their own implements and using most of their own produce. Cities like Athens and Corinth were the exception rather than the rule in Greece proper, and Sparta, where commerce was forbidden to the citizens and the introduction of coined money prohibited, was actually the most important power in sixth-century Greece, and even at the end of the fifth century was able ultimately to conquer Athens. She had solved the problem of an expanding population—which had made Athens into a commercial city—by simply refusing to allow expansion. Only the fittest survived the rigours to which the Spartan child was exposed.

Moreover, even at Athens the commercial class never had much political power. The citizens drew their resources partly from their farms, partly from the service of the State. They served in the army, or as members of the panel of judges in the law courts, or as civil or military officials in Athens' foreign dependencies. It was mainly the 'metics' or resident aliens who made a living out of manufacture, and the businesses which they owned were generally not very large in size. No factory system ever existed in the classical age of Greece, though by the end of the fifth century there are mentioned workshops which employ more than thirty men, and possibly one instance, a shield factory, where more than a hundred were employed. We happen to know most about the manufacture of pottery and sculpture—and in such workshops a dozen or so men might be employed. In addition to the periodical market there was some regular retail trade.

In these various branches of industry and commerce, employees were sometimes slaves, sometimes free citizens. The two worked side by side receiving the same wages, and there are instances when the slave became foreman rather than the free citizen. Many of the great painters of Attic pottery were foreign slaves, as we know from their signatures on the work they did; others were Athenian citizens. The difference was that the slave's wage went to his master (though he probably was allowed to keep a fair proportion) whereas the citizen's earnings were his own. Slaves were, therefore, a form of investment for those with a little capital, who hired them out to owners of workshops or to contractors, or established them in retail trade (which was despised by most citizens) and took the profits. There is every indication, however, that in the fifth century this was done only seldom on a large scale; and that the gap between riches and poverty was much narrower than it is to-day. Moreover, the distinction did not, in the democratically governed cities like Athens, imply a social difference, the same being true of Judaea in the first century A.D. Socrates was a stone-cutter by trade. Christ was a carpenter. Paul was a worker in leather. In each case the fact indicates nothing with regard to social status, since the ordinary town dweller, if he had not land outside which he or his slaves farmed, was engaged in some sort of work for his living. Socrates was the friend of Alcibiades, one of the few men of his day definitely reckoned as rich.

The chief market for the wares produced in these workshops and by these individual craftsmen was no doubt local. The only large-scale buyer was the State, and sometimes, as when a public building was erected, its contracts must have been very considerable in size. Thus each block of marble quarried for use in the building of a temple at Eleusis, sixteen miles from Athens, in the fourth century B.C., took thirty pairs of oxen three days to transport, and special wagons had to be built and special paving for the roads prepared to make the work possible. The State was also the only large-scale producer, the State silver mines in Attica being worked by a large number of slaves and producing a very considerable revenue. In this last respect, Athens was the forerunner of the Hellenistic kingdoms.

As the number of official positions to be held by citizens increased (and in fifth-century Athens this number was, relatively to the size of the citizen population, great) manufacture and commerce tended, as we have seen, to pass into the hands of a class whose social status was between that of citizen and slave—the 'metics' or resident aliens. Nevertheless, by the outbreak of the Peloponnesian war (432 B.C.), even though few citizens were engaged in manufacture, Athens can fairly be described as a manufacturing city, and it is already possible to notice the first signs of the political change consequent on the urbanization of democracy. She no longer had that stability which a free peasant population had given her in the past. And though Sparta had avoided the change it was happening in some few other cities besides Athens, in Corinth, and possibly also in Megara.

To draw an analogy between Greek and modern conditions is in many ways safer than to compare Greek with medieval commerce. In medieval times the merchants of a town acted together on many matters of commercial policy, and in Venice, for instance, the 'Flanders galleys' (see below, p. 64) represented the co-operation of the whole mercantile community. Nowadays, however, though a town council may, and often does, adopt a general policy of expenditure designed to increase the prosperity of the town, individual merchants can and do act in an entirely individual capacity. A contract would not be refused, for example, because it was likely to increase the prosperity of a town other than that in which the contractor lived. Business, in fact, is business. So in Greek history there are undeniable instances of State action in furtherance of a general commercial policy, and the effects must have been more apparent because the unit was small; for the Greek state was a single city only, and the decision to build a hundred ships in the city's docks might make the whole difference between distress and prosperity. But this does not mean that commerce was any less individual in organization.

There is, however, quite apart from scale, a very real difference between conditions in ancient Greece and conditions in modern England. Because commerce played relatively a smaller part in life, a completely different view of it could be taken by the average Greek—or at least by the average Athenian of the fifth century. Commerce existed to supply material needs, and did not determine political policy. The primary interest of Athenian citizens in the late fifth century B.C. was not prosperity but power. Athens was thus, during the critical period of her history, in some degree a 'totalitarian' State, in which mercantile interests were denied political power, and where indeed we find side by side with this other characteristic marks of a totalitarian régime, such as the repression of minorities. We find the same persecution of the intellectual, for while instances to the contrary are often quoted, the numerous instances of persecution, e.g. for atheism, seem to be forgotten. It may be true that a Socrates would not appear in modern England. It is certainly true that, if he did, he would not be put to death. The whole machinery of the Athenian law-courts, working not to discover the fact but to answer the question whether the defendant was wanted by the Athenian society or not, is typical of the totalitarian State. Thucydides lived most of his life in exile, and Euripides found life at Athens intolerable. The modern totalitarian State relies for its support largely on the widespread feeling that 'big business' ought to be controlled in the interests of society as a whole, and certainly in Athens of the late fifth century merchants were servants, not masters, of the State. How far this is true of other periods in Greek history, and of other States, is by no means so clear. At Athens commerce seems to have been generally despised, though the other forms of totalitarianism we have noticed were less permanent, and were due partly to war. That commerce was never allowed much political influence in Sparta is indeed self-evident, but the commercial element in cities like Corinth may at times have been politically powerful.

The Greeks liked the look of the sea, but they do not seem on the whole to have liked the feel of it. Many earned their living by it, but they were not at heart travellers.[1] One or two made their way beyond the bounds of the world, as it was commonly known to their contemporaries. The historian Herodotus, whose work was written about 440 B.C., travelled to Mesopotamia and to Egypt. On his return he found his countrymen moderately interested but on the whole incredulous. Much that was in his notes, unfortunately, never found its way into his history. 'Although I know how tall corn grows in Babylon,' he writes, 'I do not intend to set it down, being well aware that I should be accused of lying.' His reception is characteristic of the Greeks of his time. In the great age of English seamanship, seamen came back to Europe with the most extravagant fables of what they had seen. The Greeks of the classical period were not interested in the monstrous or the bizarre. They were preoccupied not with nature, animate or inanimate, but with man. To them their ordinary everyday life presented problems enough. It was enough for them to think out some new idea, listen to some new speaker—who perhaps expounded a theory of conscience or of law to them; or to see a new play, attend the city assembly in the market-place, and vote on some public appointment. Anything which they could think out and discuss interested them passionately. Some of the early Greek philosophers had discussed the shape of the world, and its origin. One, Pythagoras, whose association with the square on the hypotenuse does not do justice to his astonishing versatility, held that the world must be a sphere, his reason being that the sphere was the most perfect of all shapes. They discovered, however, that there was no finality about such discussions. One could never get any nearer an answer whether the world was round or flat; whether the universe was composed of earth, fire, and water, as one man said, or of countless atoms, which was the view of another. They turned from these speculations, and talked about the things of which they had first-hand experience to act as a touchstone of theory. They discussed the way in which a city ought to be governed, or they talked over the religion of their ancestors and considered its weak points; there was, incidentally, general agreement that these were very weak indeed. In a sense they were intensely practical because they insisted on thinking out the things that affected their lives most nearly.

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[1] The view of Ulysses in Tennyson's poem is romanticized. Ulysses travelled only because he had to do so, and his heart repeatedly sank very low at the prospect of fresh adventures.

Though the Greeks never loved the sea, Greek history is nevertheless marked, as we have seen, by a growing use of it as the principal mercantile thoroughfare. As early as the seventh century B.C. their wares had found their way to the Rhone valley, and Greek legend at that time already spoke with tolerable accuracy of the Danube and the Phasis. Amber was regularly brought to Greece from the Baltic, accompanied by an offering from the 'Hyperboreans'—those thought to live beyond the north wind—for Apollo. These offerings were brought in covered baskets passed on apparently from tribe to tribe—an astonishing example of the methods of primitive commerce—and with them certainly came the vague reports of the countries of their origin that have found their way into the literature of the time. No doubt certain objects continued to filter through from the Far East; and if analogies drawn from the age of the Muslim travellers and

Marco Polo are of any value the suspicion is justified that though we hear nothing of them, there may have been occasional Greek traders as far afield as India or Central Asia. The good money of the Athenians, stamped with the device of an owl, became known as trustworthy and of proper value, far beyond the bounds of the empire. And indeed, in itself that empire is the proof of a new order which the use of the sea had brought into existence. The sea was no longer a barrier but a thoroughfare; it not only separated states, but also united them. The communications of the Athenian empire which came into existence after the Persian wars (479 B.C.) and lasted for three-quarters of a century, were entirely maritime. It was correspondingly vulnerable, depending absolutely for its revenues, and to some extent actually for its food supply, on the command of the seas. When the shattering defeat of the armada which the Athenians had sent to Sicily took place, Athens' subjects began at once to revolt, and two years later she could rely on the loyalty of not one of them except Samos. She struggled on for six years longer, scraping together the revenues for her campaigns by naval piracy, but it was a hazardous game, as some of those who played it realized. When she finally lost control of the straits into the Black Sea her fate was sealed, for her own corn lands had been at the mercy of Sparta for years, and she now depended entirely on corn from the Black Sea region. One effect of her defeat by Sparta was to check further commercial development for yet another century; and another was to ensure that the mainland of Greece should never share it when it came.

III. THE HELLENISTIC AGE, 330–160 B.C.

The end of the classical age of Greek history is the beginning of the third phase of Greek expansion. The product of this new movement was not pure Greek civilization of fifth-century Athens, but 'Hellenistic'. Nevertheless, it was in some essential respects still Greek. Its language was Greek. From the time of Alexander onward, actually until after A.D. 500—long after the 'Hellenistic' age was over—Greek remained the language of the eastern Mediterranean seaboard. The Christian emperors in Constantinople spoke and wrote Greek. The early fathers of the Christian Church in Alexandria spoke Greek. St. Paul and St. Luke, and probably, indeed, all the writers whose work is included in the New Testament, wrote originally in Greek. In Hellenistic times Greek was understood in the cities of Mesopotamia and even as far east as Afghanistan and the Punjab. Moreover, Hellenistic civilization was Greek in that it was essentially a civilization of cities, and of cities which, to some extent, were independent. And it has a particular interest for our present purpose, since it marks the highest development of commerce and of material civilization in general which had yet been attained.

Alexander the Great was brought up in the Greek tradition. His tutor was the Greek philosopher Aristotle. One of his biographers, Plutarch, tells us that on his campaigns he slept with a copy of Homer under his pillow. He came to the throne, owing to the assassination of his father, while he was still a boy. He died at the age of thirty-five. When he died he had built up an empire which stretched from Greece to the Indus. He had founded Alexandria, which was thenceforward one of the most important, for a time the most important, city in the ancient world. And the most remarkable thing about him is that he not only conquered, but planned. He saw that the empire would have to rest not on the Macedonian or Greek element alone, but on a fusion between conquerors and conquered. He conceived a state within which Persians should have opportunities as well as Greeks. He saw that the only way to subdue was to civilize, and he founded a great chain of cities from Egypt to the heart of Asia to be the medium of civilization.

On Alexander's death in 323 B.C., the huge empire which he had created was divided, after considerable fighting, into three kingdoms, each ruled by a Macedonian general with an army of Macedonians and Greeks to support him; the kingdoms of Macedon, Syria, and Egypt. Thus the ruling class throughout the empire was predominantly Greek. The most important cities of this new Greek world were all commercial centres—Rhodes, where the harbour dues in 170 B.C. brought in six times as much as they had brought in at Athens during the period of her greatest prosperity; Pergamum, where one of the most remarkable monuments of the new riches was erected, the great altar of Zeus, which the writer of the book of Revelation calls 'Satan's seat'; Antioch; Seleucia on the Tigris, the successor of Babylon; and, above all, Alexandria in Egypt.

It was pre-eminently a commercial age, remarkable alike for the enormous growth in manufacture and trade, and for the growth in systematized knowledge of the world. The chief factors in the increase of commerce were the dispersion of the enormous treasures hoarded by the Persian monarchy (the value of which was approximately £40 millions, representing a far larger sum in modern money) and the policy of urbanization followed both by Alexander himself and by his successors. The former represented vast 'inflation', the latter the creation of extensive new markets; for cities are better markets than farms. One example of the scale of commercial undertakings at the time may be mentioned. The chief slave-market at one time during the period was the island of Delos, and we are told that in a single day as many as ten thousand slaves might be auctioned there. A new class, the *bourgeoisie*, begins now to appear, interested (as always) in making money and (as always) with no idea how to spend it—a class as unlike as it could be to anything which existed in Athens during the period of her greatness. We know much of the way in which they lived from discoveries of papyri, the great bulk of which are the contents of their waste-paper baskets. Some of the work of the court poets of the Ptolemies, who were great literary patrons, deals with this bourgeois class. They were clearly preoccupied, as we are nowadays, with money-making, and gossip was evidently their main hobby.

Alexandria's manufactures were very diverse. Much of her wealth came, as did that of Antioch, from her share in the trade of the East which had by now assumed very large proportions thanks to direct contact with India, or from the trade of the South. Ptolemaic merchant fleets were sent to the southern ports of the Red Sea and, at a late period, round Cape Guardafui to the east coast of Africa, to fetch ivory and spices. Alexandria herself exported Egyptian corn[1], the production of which was managed by State officials, as were many of the big commercial undertakings of the time, papyrus, textiles (especially linen), and fine metal-work. She re-exported also the products of the Far East. The degree of her prosperity was unlike anything which had hitherto been seen. A find of papyrus has given us the archives from the estate of one of the royal managers, who in addition to his official duties engaged in commerce on his own account during the middle of the third century B.C. 'His commercial business ramifies over Palestine and Transjordania, and the coasts of Asia Minor. He had his own merchant fleets for the Nile and for the sea. His agents were busy in Ptolemais, Tyre, Sidon, Joppa, Lebanon, Caunus, Miletus, Halicarnassus. He traffics among other things in cloth and Syrian oil and slaves.' Alexandria still remained an important city long after the conquest of the East by Rome. Mark Antony, after Caesar's death, is said to have contemplated the shifting of the capital of the Empire from Rome to Alexandria, which had in his day a population of over a million.

The chief cultural results of the prosperity of the Hellenistic age were achievements in the field of mathematics and science rather than of art. Euclid, whose 'Elements' of Geometry was still a standard text-book up to the dawning of the twentieth century, worked at the court of Ptolemy I in Alexandria. The first treatise on Conic Sections was dedicated to one of the kings of Pergamum. The libraries at Pergamum and Alexandria—the latter containing hundreds of thousands of books—made possible the development of science. Two interesting literary achievements of the Alexandrian scholars are the invention of textual criticism[1] and the translation of the Old Testament from Hebrew into Greek. The translation of the first section of the 'Septuagint' (as the Greek version is called) may have been begun during the lifetime and under the patronage of Ptolemy I himself.

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[1] The Roman corn-supply was ultimately drawn mainly from Egypt.

Among other sciences, that of geography (which is obviously bound up in its earlier stages with commercial enterprise) flourished, as Greek merchants brought reports of the regions they had penetrated. Attempts had been made by Greeks to make pictures of the world, whereon all the rivers and seas and islands and cities were marked, as early as 500 B.C. The early Babylonian and Greek geographers believed in a great stream of ocean, which was to be found beyond the Pillars of Hercules and which encompassed the world. Some repeat stories of the Nile disappearing below the earth and reappearing again in India. Herodotus (440 B.C.) had heard that it rose between two mountains called Krophi and Mophi. In Hellenistic times, though fable was by no means excluded from the geography books, the proportion of fact substantially increased. Even the earlier writers had heard reports of the Steppes of Russia, and of the intense cold of the Arctic where the sea was reputed to freeze. These tales may have filtered through to Greece from the Baltic whence amber came to Greece. That a much wider range of knowledge was possible after the time of Alexander was to some extent due to Alexander himself, who was deeply interested in geographical problems. He took with him on his campaigns what seems to have been a small staff of surveyors to keep a record of each day's journey. But a single fact can be given to show the extraordinary developments of scientific geography. Eratosthenes, who was at one period during the third century B.C. librarian at Alexandria, calculated the circumference of the earth to within a few hundred miles. His calculation is actually more accurate than that used by Newton. The trouble was that in an age before the circumnavigation of the globe, demonstration that the earth was a sphere was not easy, and though the fact was accepted by geographers, it never became a piece of 'common' knowledge. Throughout the period, however, geographical facts were being steadily collected and systematized, and what would now be called 'human' geography was studied side by side with physical geography. One of the Syrian ambassadors at an Indian court wrote a very tolerable account of the caste system, an account which has been preserved to us in the writings of geographers who followed him. At the other end of the known world it was during this period that the Greek Pytheas, of Marseilles, visited Britain. He, too, besides giving details of various physical facts hitherto only known as legend—he had actually seen, for example, the ice of the Northern Seas—also wrote an exceedingly interesting account of the tin trade with Britain as it existed in his day. This account as quoted by a later writer runs as follows:

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[1] One result of Alexandrian textual criticism was to establish the text of Homer virtually in the form in which it is read to-day.

> 'Those who live in the neighbourhood of the cape known as Belerium (Land's End) are particularly hospitable to strangers and thanks to contact with merchants from abroad are civilized in disposition. It is here that tin is obtained . . . they smelt it down into the form of bricks and take it to an island named Ictis (probably St. Michael's Mount) lying off the coast of Britain. There local merchants buy it and take it to Gaul, and for the last stage of their journey they travel on foot through Gaul, bringing their baggage on pack-horses to the mouth of the Rhone.'

With the growth of an economic system almost modern in character, social life began to show many of the symptoms which we associate only with modern times. The citizen of Alexandria lived in a capitalist world, in which money was rapidly becoming the chief mark of social distinction, and in which the fortunes of the rich contrasted with the extreme poverty of the poor. Both industry and agriculture were essentially capitalist, managed, that is, on a large scale generally with great numbers of slaves. There are traces here and there in the Greek world of the class struggle, of the use of violence against the haves by the have-nots. Of these outbursts, until towards the end of the Roman empire, the result was invariably the failure of the poor. There is the same general decay of artistic taste as a result of mass production, and the highest literary achievements of the period (which are very high) are in an artificial genre. Most of the Greek sculpture in our museums is the product of this phase of ancient civilization, and is work turned out to order by men who had no claims to be anything but copyists. And as in modern times, commerce demanded the construction of great works. Great harbours were built at Alexandria, on the coasts of Syria and Asia Minor, on islands such as Rhodes and Delos, and at Puteoli in Italy. Lighthouses, of which the prototype was the great Pharos of Alexandria, began to be built where they were required. In the slave-worked factories of the bigger Hellenistic cities or on the slave-worked estates of the Hellenistic rulers were produced the commodities for which these commercial facilities were required. The prosperity of the age had a dark side to it. In the fifth century slavery as a whole had been a tolerable estate which offered opportunities for the leading of the 'good life'—though conditions under which slaves worked in the mines of Attica will not bear close scrutiny. In Hellenistic times many slaves still sometimes held positions of great trust, as they did also in Roman times, and men of distinguished intellectual capacity and achievement were sometimes slaves; while freed men, that is to say slaves who had won freedom, might rise to very high positions.[1] Moreover, the popular philosophies of the day tended to emphasize the right of the slave to be considered as good a man as the free citizen, a position unthinkable to earlier philosophers who had maintained that slave was by nature different from free. Nevertheless, what little we hear of the lot of the majority of slaves, working in chained gangs in mines or on the great agricultural estates of the Hellenistic rulers, or in the factories, implies great hardships and brutality, and it is not surprising that the fear of a revolt of slaves was so great, nor that when revolts took place they were suppressed with horrible severity. One reason, therefore, for the commercial prosperity of this era (and of later Republican history in Rome 190–31 B.C.) was its military activity. Wars provided the life-blood of commerce, since they provided it with the ever increasing number of slaves necessary to maintain production on its relatively enormous scale. Prisoners of war were regularly sold as slaves by their captors and formed, indeed, the most important portion of the commander's share of the spoils.

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[1] The name of the writer of the third Gospel suggests the son of a freed Greek slave; his contemporaries Pallas and Narcissus, though freed slaves, were important officials in the imperial bureaucracy.

Though great commercial centres existed, communications, more especially until the Roman road system was built throughout the empire in the last century B.C. and the early centuries A.D., were still difficult, except along certain main routes, and towns and villages which lay off these main routes maintained an economic aspect remarkably different from that of the big cities. St. Paul, in exchanging Jerusalem for Rome, moved from a provincial backwater where the main local interest was still religious controversy, and where distinctions of wealth were relatively negligible, to a huge industrialized town of modern aspect where the fortunes of the rich were large even by the standards of a Ford or a Rockefeller. The Roman empire was the commercial as well as the political successor of the Hellenistic monarchies.

IV. CARTHAGE AND ROME

The commercial history of Rome falls into three phases. During the first, which was the time when her power was expanding in Italy, the only big buyer was the Roman State, and the employment which this provided was the main source of livelihood for the population of the city of Rome itself. At this time the majority of those who had the privilege of Roman citizenship were peasants, living on their farms and satisfying most of their material wants with goods produced by their own households; and it was these peasants who formed the backbone of the Roman armies, in which they were called to serve for short periods. The second phase is marked by the spread of the Roman rule overseas. The upper classes of Rome profited greatly by this extension, but no comparable advantages came to the lower classes, who thus began to grow restive in spite of the doles offered to keep them quiet. Moreover, the uncontrolled exploitation of the overseas provinces by the upper classes reduced the provincials to virtual ruin, and thus the period culminates in an age when there was anarchy in the city of Rome and widespread distress in the overseas provinces, though the Italian countryside prospered under the new capitalist agriculture. The third phase is that of the imperial régime, which brought security to Rome and to the provinces, and, through this security, was able to create an extensive lower middle class of city *bourgeoisie* throughout the empire—a class largely engaged in commerce and contented with the very reasonable standard of material comfort which it succeeded in maintaining.

When Rome became a republic in 510 B.C., she owned no territory outside her immediate neighbourhood, but during the next two hundred years her power spread throughout the peninsula. During the third century B.C. a conflict arose between Rome and Carthage over Sicily. Rome was thus forced to create a navy, and the series of defeats which it suffered served only to emphasize the obstinacy which was so notable a characteristic of Roman history. Finally, in the year 246, the first great war between Rome and Carthage ended in victory for Rome, and by the peace which followed the western sea was opened to the world. This event is one of the landmarks in the development of commerce. Carthage had been able hitherto virtually to close the straits of Gibraltar to Greek ships, but the defeat of Carthage broke down this barrier. For a long time it was Greek rather than Roman merchants who took advantage of this change.

The victory at sea was decisive, and Hannibal's attempts to restore the fortunes of Carthage by an invasion from Spain were foredoomed to failure. Thus sea-power in the Mediterranean passed into Rome's hands, and this made the Mediterranean region the natural area for her imperial expansion. It was the Mediterranean Sea which unified the great land system of communications which the Roman empire later created. The Mediterranean gradually became a Roman lake, and the second phase of Roman imperialism had begun.

Its progress made the Roman constitution unworkable, changing as it did the whole character of the Roman State. The State had, in fact, outgrown the city, for the government of which the constitution had originally been evolved. That constitution, which depended on a balance of power between Senate and people, had worked so long as the economic interests of the two were generally the same, and so long as the State continued to be the foremost employer of the people. A Greek historian, Polybius, who wrote in Rome in the second century B.C., explains how the population of Rome depended for its livelihood largely on the economic undertakings of the State—including not only the construction of public buildings and the great roads, but the running of mines and large agricultural properties, harbours, &c. 'One can almost claim', he says, 'that the whole population (i.e. of the State of Rome, not of Italy as a whole) has an interest in the contracts arising out of these works either as contractors, or as shareholders, or as labourers.' But by Polybius' date conditions were changing. The period of overseas conquest which had then begun brought relatively few benefits to the lower classes at Rome. Contracts in the provinces were carried out, not with labour from Rome, but with labour recruited in whatever country—Greece or Spain or Africa—the work had to be done. Military service overseas could not be undertaken by the peasant armies which had conquered Italy. Soldiers had to enlist for long periods of service. Farming was out of the question for them, and peasant holdings gradually were bought out by the capitalist farmers who used slave labour. The rank and file of the army doubtless often did well from the spoils taken, but this, though it may have made single campaigns profitable and popular, did not make a substantial career. What happened to most of them was that, enlisting as peasants, they found when their period of service was over that it was impossible to return to a country life, and there was nothing for them to do but go to Rome and swell the ever-growing ranks of the unemployed.

For the governing or senatorial class matters were very different. The wars of conquest not only greatly enlarged the scope of the military profession, so that senatorial generals made huge fortunes out of single campaigns, but they also opened new fields for the provincial administrator—and how lucrative a provincial governorship might be in republican times is notorious. A single year in a rich province might not only pay a man's debts but set him up for life. In the circumstances it is scarcely surprising that the policy of conquest had influential support.

Thus there were powerful economic, though not commercial, reasons which led to Roman imperial expansion overseas. As it was actually against the law for senators to engage in commerce, commercial motives could not intrude very far during the early years of overseas imperialism. By the later second century, however, a business class, the *equites*, had come into being. For this middle class conquest was scarcely less profitable than for senators, as it extended vastly the scope of their operations, and by the year 100 B.C. commercial motives had become very real. Unfortunately, owing to the way in which the administrative system developed, individual governors, though chosen from the Senate, were put under an obligation to the equites so that they could scarcely refuse to give the equites in their provinces a free hand. Once a provincial governor had been appointed, the Government at Rome washed its hands of responsibility. He did what he liked and he let the merchants, moneylenders, and the agents of tax farmers[1] do what they liked. Now and then there were troubles between equites and senators, but the system worked, on the whole, smoothly—so far as could be seen in Rome. In the provinces, however, its effects were a devastating example of the results of *laisser-faire* carried to its farthest extreme—uncontrolled cruelty, bribery, and oppression. Meanwhile the poorer classes at Rome left without means of support were bribed, by cheap corn provided at the Government's expense, to keep quiet and allow senators and equites to prosper on the produce of the empire. To have let them go hungry would have been to risk serious discontent and the possible overthrow of the system. Similarly in modern times capitalist society has had to face the maintenance of a large body of unemployed, and has accepted the burden as worth while if it saves a profitable system. There are good moral as well as political reasons why it should do so.

Other factors also were at work in the second and first centuries which increased the economic difficulties of the poor. The conquest of the Greek kingdoms of Macedonia and Syria led to the flooding of Italy with Greek slaves, for victorious Roman generals sold their prisoners of war for what they would fetch, this being one of the most profitable perquisites of military command. Thus, especially during the years 100–60 B.C., skilled workers from the eastern Mediterranean were poured into the Italian cities and dispersed throughout the Italian countryside. They displaced Italian labour, and further increased unemployment among the poor citizens.

Greek methods thus introduced, though their introduction pauperized the poorer citizens, were technically far superior to Roman, and industry, agriculture, and stock-breeding were revolutionized by them. The cultivation of the vine for the production of wine became a regular undertaking.

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[1] The main imperial taxes up to the time of Julius Caesar were auctioned at Rome, the right to collect them being sold to the highest bidder. This right was usually bought by syndicates of the equestrian order.

Stock-breeding, from being haphazard, began to be scientific. Manufactures sprang up, transforming towns from provincial markets into busy manufacturing centres. Already by the mid-second century B.C. the 'Arretine' ware of Italian potters was being used all over western Europe. Italy's industrial revolution consisted in the absorption of the technical and organizing skill of the Hellenistic kingdoms. When the poet Horace wrote (about the end of the first century B.C.) that 'captive Greece had led its conqueror captive' the Greece in his mind was the Hellenistic kingdoms, not the Athens of Aeschylus and Pericles and Plato, of which Romans knew little and understood less. It was Alexandrian literature, and it was Alexandrian capitalism that Rome imitated. In a sense, the Roman empire represents only an expansion of Hellenistic society, not a new unit.

The history of the Roman civil wars thus has a background of chaotic changes, involving the adaptation of Roman society to Alexandrian standards and methods. While they were being fought out the pace of life was accelerated to an extraordinary degree. There was already by Caesar's day a disparity comparable to that of modern times between rich and poor in Rome. Cicero, for example, was by no means the richest man in Rome, but we nevertheless know details of at least eight country houses belonging to him at various times, in addition to his house in Rome, for which he paid £30,000.

These changes in the character of Italian life made it necessary for Rome to buy foreign corn to supplement Italian supplies, for in Italy the cultivation of vines was the most profitable branch of agriculture and much land that might have been farmed was occupied by the parks of wealthy landowners. There never existed in Greek or Roman times surplus supplies of wheat, comparable to those in the great wheat-producing areas of the world, North America or south Russia, to-day, and so in ancient times states interested had to encourage the import of foreign wheat by every means in their power. They had to play themselves the part of wholesale buyers, and they often attempted to get control of wheat-producing areas, to ensure the purchase for their own proletariat of any surplus which existed. This need was one reason for the ultimate absorption of Egypt into the empire, though it was those other economic causes at which we have already glanced, the interests of the upper classes, that were the main reasons for the wars of conquest.

When Julius Caesar became sole ruler of Rome and the third phase began, a condition of virtual anarchy prevailed in the city. For the last few years no one had been able to control the mobs, who sold their votes and by their acts of violence made security and justice meaningless. The first problem was to give them something to do. Under the early emperors the feat of creating a commercial proletariat out of this rabble was somehow accomplished. The Emperors did three things. They fixed and defended the bounds of the empire. Within these bounds, which stretched from the Tyne to the Euphrates, they brought absolute security—largely by the creation of a road system which is one of the marvels of history. Most important of all, perhaps, they created an efficient civil service. The provincial governor was no longer his own master, as he had been in the past. He was the emperor's servant. The success which attended their efforts proved that the primary need had been for security, security from civil war, from external attacks, and from class tyranny.

Moreover, the government of the Emperors revived the prosperity of the provinces to a quite remarkable degree. Whereas in the early first century B.C. the economic life of Asia Minor seemed to be virtually extinct, under the Emperors it revived, and the new western provinces (especially Gaul) at the same time began to develop their commerce and industry. This development was so rapid that many of their products soon competed successfully with those of Italy. By the end of the first century A.D. the pottery in regular domestic use throughout the empire was indeed an imitation of the Arretine ware which had been an Italian speciality (see above, p. 28), but an imitation manufactured chiefly in the western provinces and in particular in the Rhineland towns. Similarly Italian wines were largely displaced from the western markets by the wines of Gaul. Thus, to a large extent the growth of financial prosperity was at Italy's expense, and from the time of the Flavian Emperors (A.D. 69–96) onwards, the economic situation became progressively more difficult in Italy, and it became increasingly hard to make either farming or manufacture pay.

In the provinces one reason for the prosperity of the late first and the second centuries A.D. was the development of towns. This had started—in Britain, for instance—before the Roman conquest, but the number of towns was few, their size was small, and communication between them was difficult. The Roman occupation made, indeed, remarkably little difference to the face of the countryside. The Celtic villages and farms and the Celtic field system continued to exist as before. It was not the occasional country house or 'villa' which made the change, but the growth of towns, London (where the first settlement was probably Roman), Winchester, Silchester, Gloucester, St. Albans, Wroxeter, and the rest. The planning and much of the building of these cities seems to have been going on during the last thirty years of the first century A.D. These towns formed each the economic nucleus of the district in which they were situated, and as we know from many sources, the most important of them soon came to be thronged with merchants from all parts of the empire selling goods from the continent and buying British goods for export. A similar process of urbanization was taking place at the same time in France, Spain, north Africa, and in central Europe, south of the Rhine–Danube line. The great cities as they grew were linked together by a road system which enormously facilitated the movement of goods. The second century A.D. is thus of all others the century in which the general standard of material comfort and prosperity in western Europe was at its highest.

An account of one of the greatest ships of Roman times shows the scale this commerce might attain. She was built to carry to Italy a column of stone which still stands by one of the city gates of Rome, and carried in addition 200 sailors, 1,200 passengers, 4,000 Roman bushels of wheat, and mixed cargo of linen, glass, and spices. The Mediterranean pilot now often made direct across the open sea, steering by sun and stars, from Alexandria to Italy. When the wind was exceptionally favourable, this voyage was completed in as few as nine days; but this must have been rare, and generally the passage took twice or three times as long.

The largest extension of trade made by the Romans was towards the Far East. From India there came highly prized spices for which, and in particular for pepper, enormous sums used to be paid, and from China came silks. At first most of this trade came overland, some of it to the ports of Syria, some to the Persian Gulf, whence it was brought round by sea to Egypt. An interesting account remains of a Roman merchant who set out to explore the land route to China. He travelled for many months with a Syrian caravan which took him through Mesopotamia and Persia and at last brought him to a place in Central Asia known to the traders as 'The Stone Tower'. Here was the meeting-place of two worlds; a lonely rock among the mountains, towering above the waters of the Yarkand river. To this, 'the most ancient meeting place of the whole earth', came caravans from China and the countries of the farthest East. No word was spoken, but the merchants from east and west set down their wares in silence, and added or took away from the heap until the bargain was struck, after which the caravans made their way back across mountains, rivers, and deserts. This land route was expensive. The cost of transport of a camel-load by land from southern Arabia to Egypt was reckoned at over £20, and from the Far East it must have been many times greater. As time went on the sea route from India became more popular, through the Red Sea to what is now the southern end of the Suez Canal, or farther, through the

Nile–Red Sea canal to Alexandria; for this canal had finally been opened by one of the Ptolemies in 190 B.C., and was cleared again by the Roman emperor, Trajan, a hundred years after the birth of Christ. For some time trade along this route was handicapped by the taxes levied by the Arab rulers at Aden and by piracy in the Indian Ocean. Augustus Caesar, therefore, sent an expedition by sea to Aden (about 20 B.C.) and it was occupied subsequently by a colony of Egyptians and Greeks, so that trade thenceforward passed freely along the coast. About the middle of the first century A.D. an Egyptian pilot named Hippalus discovered the monsoon, that is to say, he found that the changes in the winds blowing across the Indian Ocean were regular, and that from April to September the wind blew eastwards, and during the other months westwards. Not only did this discovery make the voyage much swifter, for the journey from Egypt to India and back could now be accomplished well within the year, but it also meant that for the future ships kept out into the open sea after leaving Aden, and this lessened greatly the dangers from piracy. We are told that whereas before this discovery hardly twenty ships a year had made the voyage, after it, on an average, a ship a day left the Egyptian ports for the East. To the sailors of these ships the whole of the western coast of India was well known. They penetrated regularly to Ceylon and farther, and we even hear of a temple being raised to 'Augustus' in an Indian city. All down the western coasts of India have been found hoards of the coins of the early Roman emperors, brought in exchange for the spices and silks which the Romans took back home. Part of the trade, no doubt, was barter. India wanted the baser metals, copper and tin especially, of the West. Many Roman writers maintain, however, that the Romans had not nearly enough to give in exchange and that therefore vast sums of gold had to be sent to the East in payment. One of them estimates that towards the end of the first century A.D. about £1,200,000 was being sent east yearly to pay for precious stuffs. This led gradually to a scarcity of gold in the

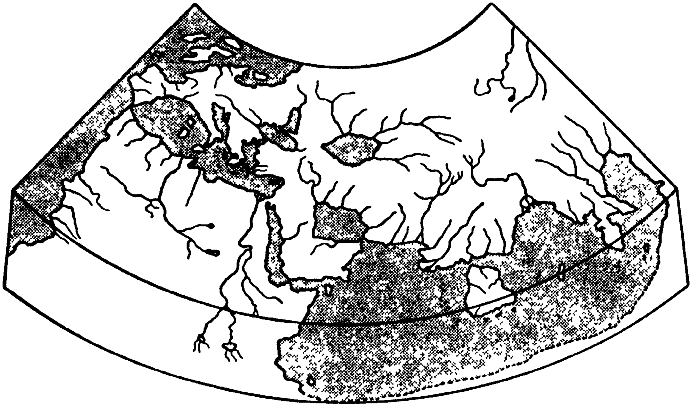
Empire, and it was partly this scarcity which ultimately brought trade almost to a standstill.

Besides trading with India, ships from the Red Sea sailed southwards to Somaliland and the East African coast, chiefly to bring back ivory. Their voyages extended as far south as Zanzibar. There was in Egypt a factory specially for manufacturing cotton to trade with the natives for ivory and tortoise-shell, as in the eighteenth and nineteenth centuries printed cotton of bright colours was the principal article of trade with the African and South Sea natives and was manufactured specially for that purpose in Lancashire. We read, too, of one particularly interesting voyage, records of which have been preserved in the annals of the Chinese court. Some Roman merchants during the reign of Marcus Aurelius (about A.D. 150) 'in the ninth year of the Yen-Hsi period' arrived from the frontier of Annam and offered presents to the emperor, after which there are several mentions of Roman traders in the annals, with commendations of their honesty. China might have been opened up to Europe many centuries earlier if the trade of the Roman empire had not begun, in the third century A.D., to decline. Direct intercourse ceased again, and it was not until the days of Marco Polo, the Venetian, a thousand years later, that it was revived.

Of the cities which flourished on this eastern trade, Alexandria was in Roman times still the most important. In our own day the most striking traces of the trade which have survived are the ruins of the great 'caravan cities' of the deserts of Arabia and Syria, in particular of Petra and Palmyra. Many of the caravans which came through Palmyra from the Persian Gulf must have brought chiefly silk —which had hitherto been so expensive that it was practically never used alone, but was embroidered or woven into other fabrics—for about the beginning of the third century A.D. it began to be used for the manufacturing of entire garments. Perfumes are also very frequently mentioned. Of the many other articles of commerce of which we read on the inscriptions from Palmyra (apart from goods required for consumption there) slaves were possibly the most important. In return stuffs dyed purple in Syria were exported to the East, and many of the imports of Palmyra were paid for in gold. It is incidentally a striking testimony to the cosmopolitanism of the Roman Empire that some time during the third century A.D., there was a Palmyrene trader established at Hexham in Northumberland (he had almost certainly come to England on military service and had become a merchant when his period of service was over) where he married an English wife and left a bilingual inscription commemorating her—in Latin and in Aramaic. Trade, like military service, was one of the great factors in the cosmopolitanizing of the empire.

This Palmyrene trader reminds us that the countries of the north also came within the orbit of Roman commerce. From Britain the Romans imported 'hides and fleeces, cattle, slaves, and hunting dogs'. The geese of Britain were esteemed by the Romans, as were British oysters. It had been hoped that Britain would prove rich in metals. Lead was extensively worked, and gold was mined in Wales, but the Romans were disappointed in the yield of minerals. The chief objects of commerce in the western provinces were various forms of food, wine, and textiles. The Romans had sent a fleet northwards about A.D. 17, shortly after the death of Augustus Caesar, to explore the coasts of Germany, and sailing as far as Denmark it brought back an account of the nature of the coastline of north-western Europe. Some years later, during the time when Agricola was governor of Britain (A.D. 80), a fleet was sent out to sail, if possible, round Britain. It succeeded, and thus established definitely for the first time that Britain was an island. Hitherto many had thought that in the north it joined the mainland.

Geographers meanwhile were summarizing for readers this increasing knowledge of the world. Strabo, who lived in the time of Augustus, writes fully about the countries of the empire, and his knowledge of the Mediterranean is detailed and accurate. At some time probably in the second



II. PTOLEMY'S MAP OF THE WORLD

Note the inaccuracy of the Atlantic coastline as compared with that of the Mediterranean. The reason for this lies in the fact that traffic between Italy and the north-western provinces of the Empire, Gaul, Britain, and Germany (i.e. the Rhineland) travelled mainly by land.

A comparison of this map with that facing p. 7 shows that the main advances in geographical knowledge between Hellenistic and Roman times were a more detailed knowledge of Western Europe and a realization that Asia stretched eastwards far beyond the Ganges. The enormous influence of Ptolemy on Renaissance geography can best be seen if this map is examined side by side with a XVIth century map. In Mercator's plate of Asia, for example, engraved about 1590, though India and China have assumed a recognizable shape, Arabia is still excessively hammer-headed, the Caspian Sea is still purely Ptolemaic in shape, and most of the names in the Far East, north of the 40th parallel, are from Ptolemy. This is the more noteworthy in that Mercator's work was one of the main factors in the breaking down of the Ptolemaic tradition. (*See also p. ix*)

century A.D., an Egyptian pilot wrote a *Handbook for Pilots* on the Red Sea and Indian Ocean. This was both a useful addition to nautical literature and also an invaluable source for the geographer. There were curious gaps, however, in the Roman knowledge. For many years the ordinary man was ignorant of the Bay of Biscay, since trade had ceased to go by sea and went overland in the West, along the fine Roman roads of Gaul and Britain. This ignorance led them into strange errors. Agricola's son-in-law, Tacitus, who wrote Agricola's life, described the west coast of Britain as 'opposite Spain'. His knowledge of the shape of the island where his father-in-law had been governor was very meagre; 'wedge-shaped' or 'like a two-edged axe' was all he could say about it. Such maps as there were, were mostly road maps, much simplified, like the straight lines on a diagram of a London underground railway. These maps simply gave the different towns on any particular road, and the distance between them.

Only in a few areas is there much material available for the study of the details of Roman commercial organization. From papyri of the Roman period found in Egypt, something can be learnt about the organization of banking in the Roman world. Credit is not an ancient commercial invention. There were in existence in Roman Egypt many small banks, which arranged loans, but for the most part they acted as intermediaries between would-be lenders and would-be borrowers rather than actually creating credit. The money-lender was a well-established feature of Roman life, and two Romans whose reputation for virtue is highest, Brutus and Seneca, made money by extortionate loans in the provinces. A typical 'cheque' of the Roman period may be quoted for comparison with the seventeenth-century cheque quoted on p. 201 below. Its date is A.D. 99[1].

'Aphrodous daughter of Satyrus to Sambus also called Didymus, banker, greeting. Pay to Charition daughter of Charidemus

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[1] See Edgar and Hunt, *Select Papyri*, Loeb ed., vol. i. Some of the names have been omitted.

[and various other parties named in full] as the price of half a share of a house and courtyard and offices in the village of Philadelphia, in accordance with the deeds of conveyance made with them, the six hundred silver drachmae of mine which you hold on deposit, 600 dr. The 2nd year of the Emperor Caesar Nerva Augustus, January 23rd.

Receipted, I Charition bid this be filed and I have received the three hundred silver drachmae falling to my share, 300 dr.'

[Receipted and dated by the other parties also.]

It will be noticed that the cheque is endorsed and dated, and that amounts of money are written out in words as well as figures as on a modern cheque.

Though the units of production in Roman imperial times were probably on the whole smaller than in the earlier Hellenistic age, the extension of the Roman system was larger. The predominant class throughout the empire was the city *bourgeoisie,* a type different as it could be from the Roman peasant-farmer of Republican times. It was the policy of the emperors to urbanize, to extend the amenities of town life as far as possible, since town life must continue if the empire was to be sustained, and each new town meant a new body of support for the Imperial idea. There was no hereditary landed aristocracy, and the empire of the second century A.D., was run by administrators who had emerged from the ranks of the mercantile classes. Comfort and prosperity were the benefits which the empire gave and for which it was valued. Its material remains show an extraordinary increase in individual comfort as compared with the classical age of Greece, and an extraordinary decline in artistic sensibility. Its products were as much 'shams' as those against which Gladstone was to declaim some seventeen hundred years later (see p. 249). For the rich they might be expensive, but if so it was essential above all that they should look their cost. Perhaps all its material arts may fairly be regarded as second rate, except its architecture.

The prosperity of the middle classes did not go entirely unchallenged by the lower orders. By the third century A.D.

the army had come to be enlisted mainly from the lowest class in the empire, and as the army secured the virtual power to nominate the new emperor, whose power depended entirely on its support, it was able to ensure that the wealth of the merchant class should be kept in check. This conflict between middle and lower classes was a powerful factor in the ultimate break-up of the system, for the system was based on the ability of the middle and upper classes to exploit the lower.

Another factor in the gradual retardation of production which began in the third century A.D. was the decline in the supply of slaves. The wars fought by the emperors in the second and third centuries A.D. were not wars of conquest, but wars of defence, and they seldom brought in any great addition to the supply of slaves. The effects of this decline can be seen in many parts of the empire and in many branches of production, but the production of corn in the Roman province of Africa may be taken as a typical example. Here we find that by the middle of the second century the dearth of slaves was making it necessary for the government not only to let its land out to small tenants as well as large, but also to insist that as a condition of their tenancy they should give up a certain fixed proportion of days in the year to labour on the larger farms. Though the proportion is relatively small (in one recorded instance the tenants had to give two days in the ploughing season, two days sowing, and two days harvesting), the fact is exceedingly significant. It is, indeed, the beginning of the serfdom of the Middle Ages, and there are already as early as the second century traces of the small tenant being 'tied' to the soil.

The increasing scarcity of gold, a symptom of which was the working of the Welsh gold-mines, has already been mentioned as one cause of commercial stagnation. The gold-mines of northern Greece and Asia Minor were exhausted. The results of this coupled with the difficulties of the imperial treasury were the inflationary measures of the third century. The currency was debased more and more till the nominal price-level was hundreds of times its former height. Inflation carried to this extent is bound to restrict trade, for the producer hesitates to exchange his goods for money which he knows to be almost worthless. Moreover, from the middle of the first century onwards Christianity was an ever-growing force, and, especially in its earlier forms, the spirit of the new religion was the antithesis of the luxury and extravagance of life in all the great centres of civilization. As late as the twelfth century Thomas Aquinas maintained that commerce was a danger to the soul. While Paul was preaching in Rome there were in existence in Italy scores of country houses where life was being lived on the scale we see it in Petronius's novel: supported by huge retinues of slaves and lavish expenditure on food and on display of every kind. Little wonder that the writer of the Book of Revelation, writing in the second half of the first century A.D., violently attacks the extravagance of the empire and predicts its doom.

> 'The traders of the earth', he says, 'shall weep and wail over her; for now there is none to buy their freights of gold, silver, jewels, pearls, fine linen, purples, silk, scarlet stuff, all sorts of citron wood and ivory wares, all articles of costly wood, of bronze, of iron and of marble, with cinnamon, balsam, spices, myrrh, frankincense, wines, olive-oil, fine flour and wheat, with cattle, sheep, horses, carriages, slaves, and the souls of men. The traders in these wares, who made rich profits from her, will stand far off for fear of her torture, weeping and wailing:
>
> Woe and alas for the great city, robed in linen, in purple and scarlet, her ornaments of gold, of jewels and of pearl! And all this splendour gone in one brief hour.'[1]

Some of the wisest Christians were ready to render to Caesar the things which were Caesar's, but to many of them anything that savoured of the world or the flesh was an evident manifestation of the devil and utterly damnable. Early Christianity, with its astonishing other-worldliness, is an extraordinary contrast with its surroundings, and was completely misunderstood for this reason by its Roman critics. It is true enough that in its early history Christianity was largely a religion of slaves, of the depressed classes who had little hope of attaining much worldly comfort or success; and it is true also that as time went on the Popes began to claim that the things which were Caesar's ought by rights to be rendered to the Pope, and that money began to be spent lavishly on the adornment of ecclesiastical buildings. But when all this has been said, no one who has studied the history of the Christian Church in western Europe during the first seven or eight centuries A.D. can deny that its tendency was to turn the thoughts of many of its followers from the things of the world to the things of the spirit, and to make them content to see the collapse of the vast structure of material civilization which had been erected.

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[1] Revelation xviii. 11 and following verses. 'She' is 'Babylon', i.e. Rome, the city on seven hills, as the writer of the book himself explains (xvii. 9). The quotation is given in Dr. Moffatt's translation. Three centuries later Jerome is just as explicit; compare, for instance, his preface to the translation of the Psalms, where he talks of 'those whose greed cannot be satisfied with the produce of neighbouring seas'.

And whatever men might say, the empire had not the resources to maintain itself. The emperors had founded city after city in the effort to maintain and to broaden the basis on which the empire rested. Their efforts were doomed to ultimate failure, since the country on which these cities depended had not the resources to support them; and what resources were available were continually absorbed in the struggle to fend barbarian invasions from off the frontiers. This problem was as old as the empire itself, and as internal decay became more marked the pressure of barbarians from without, all along the northern frontier from the Irish Sea to the Black Sea, became correspondingly greater. From Germany and Russia there came Goths, Vandals, and Huns, and though they themselves ultimately were powerfully influenced by the empire they invaded, the system of Christendom which developed from this fusion is a different thing from the system of the Roman empire. The old commercial prosperity was gone. Units had once again to become self-supporting; and where trade existed at all it was trade in the rare luxuries of life, rather than trade in the ordinary commodities of everyday use. The seas became once again infested with pirates, and the great roads, even where they had not fallen into decay, were unsafe through brigandage. In Britain it is doubtful whether any cities continued to be occupied during the period following the withdrawal of the Roman army. It took more than a thousand years to restore the commercial security thus lost.

II

THE DARK AGES

I. THE EASTERN EMPIRE

We have seen that the transition from Roman Imperialism to the Middle Ages involved the virtual break-down of the commercial system which had been created during the Hellenistic and Roman periods. It was not only the 'barbarians' who were responsible for the break-down of law and order, for these barbarians often readily absorbed the civilization with which they came into contact; but more serious was the process of internal disintegration. Accordingly from the end of the third and throughout the succeeding centuries there occur not only violent attacks on the defences of the empire from without, but an increasing anarchy within. In Britain external attacks took the form mainly of piracy, and of a return to conditions something like those prevailing at the time of the great sea-raids in the eastern Mediterranean (see above, p. 3). To repel raids on the south-east coast a system of coastal defence was established about A.D. 300, controlled by an officer known as the Count of the Saxon Shore, and consisting of a series of massive fortresses capable of holding something like a thousand each, from the Wash to the Isle of Wight. This is a particular instance of the barbarian incursions to which all the frontier provinces of the empire were liable. The same thing was happening, for example, in Egypt, where a series of royal graves of this same period, recently excavated in Numidia, were exceedingly rich in gold and jewellery plundered, about this same time, from the Roman province. Nor did the interior districts fare much better, for in very few places was it possible for the towns to maintain their control over the areas in which it had hitherto been exercised. Early in the third century it became necessary to establish along some of the great roads a series of fortified posts for the benefit of merchants and travellers, but as time went on it was impossible even to support these depots of police, and the movement of goods on any scale was thus in some districts almost impracticable. In the eastern half of the empire trade continued to move along certain main routes, though here, too, local security, such as had been maintained in the great days of the united empire, was a thing of the past.

In general the results of these disturbances and of the check which they gave to commerce were, as might be expected, the decay of urban life and the return to a system of domestic production. In some areas it was possible to maintain some towns; Rome itself is an eternal city, with a continuous history unbroken throughout the Dark Ages; and there are other cities of Italy and of the East (such as Constantinople, Damascus, and Alexandria) of which the same is true. But Britain, Gaul, Germany, the Danube lands, and the great bulk of the Roman empire had no such eternal cities. In Britain and throughout western Europe the Roman cities were gradually deserted and the inhabitants began to grow their own food, to weave their own cloth, and make their own pottery, beyond which many of them had practically no material possessions. Almost the only considerable centres of production came to be monasteries of the 'coenobitic' orders—those, that is, where life was lived as a community, not those which existed to give opportunity for continuous solitary contemplation.[1] In the west the monasteries of the order founded by St. Benedict (*c.* A.D. 500) were often very large in size and their founder himself believed that a great part of the monks' time should be spent at work in the fields. In the eastern empire monasteries of Basilean monks were regulated on a similar system.

It is a remarkable fact that in spite of the virtual breakdown of commercial intercourse the world of the Dark Ages and of the Middle Ages remained cosmopolitan. Christendom was something real even if it was nothing material, and if British oysters no longer were sold in Rome, such ideas as, at long last, reached Britain were still Italian. To Rome, or beyond it, to Jerusalem, men still looked as their spiritual motherland, and even during the darkest moments of the Dark Ages, the pilgrimage to one or other of these centres was constantly made.

The eastern or Greek-speaking half of the Roman empire maintained its political integrity much longer than the western. Constantinople, the capital of the eastern Roman empire, survived into the Middle Ages to bear the brunt of the attack on Europe from the East. It did not actually fall into oriental hands till it was taken by the Turks in 1453. During the eleven hundred years from A.D. 300 to A.D. 1430—from the time of Constantine till the time of the Wars of the Roses—the eastern empire retained (except for the half century following the Fourth Crusade, when it was under western emperors) its independence, and though in certain periods the extent of its political power was not large, at others it included Greece, Asia Minor, Syria, Egypt, and parts of northern Africa, Italy, and Spain. Yet the Byzantine empire was singularly different in social structure from the Roman empire in its great days. There were a few ports such as Trebizond on the Black Sea, Thessalonika on the Aegean, and Bari on the Adriatic, which were flourishing towns, but the commerce of the empire was centred to a quite remarkable degree in the city of Constantinople itself. Moreover, whereas the characteristic of Roman imperial commerce had been the wide-spread traffic in cheap articles—often mass produced and 'shoddy'—and in foodstuffs of many different kinds, the trade of the Byzantine empire was almost exclusively confined to luxury goods, and while private enterprise had been the accepted principle of production in Roman times in everything save the corn of Egypt and the mineral resources of the empire, in Constantinople the most important manufacture, that of silk, was a State monopoly, and State interference in economic life was very extensive. There was never a free market for money. The rate of interest which might be charged for loans was regulated to the advantage of borrowers, but was fixed so low that very few were prepared to lend money at all, and the financing of commercial operations was correspondingly difficult. Thus, whereas in Roman times investment in commerce had been extensive, and many of the great landowners had had manufactories established on their estates, in the Byzantine empire the one form of investment which was secure was land, and private enterprise tended to be starved of the capital which would have enabled it to prosper. There was certainly in Constantinople itself a wealthy class whose riches were derived partly from manufacture and trade, partly from their estates, but throughout the empire as a whole there was hardly any middle class. Even the bureaucracy, which was always extensive, tended to become aristocratic, especially as western feudalism filtered through to the East. In one important respect alone commerce played a part in the social system of the empire as a whole. It made possible a rise in social status, and young men of enterprise from the provinces, making a pilgrimage to see the relics of Constantinople their excuse, found their way to the capital and made name and fortune. It was the safety valve which gave the empire its unique stability. Without it the system of caste would have been too rigid to survive for long.

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[1] From the following account, written in the fourth century A.D., of a visit to one of the Egyptian monasteries we get a glimpse of its economic life. 'One worked in the fields, another in the garden, another in the smithy, another in the bakery, another at carpentry, another at fulling, another at basket-making, another in the tanyard, another at shoemaking, another at tailoring, another at calligraphy.' Such institutions were virtually independent, economically, of the world around them.

In the first centuries of the eastern empire its wealth was derived mainly from the Far Eastern trade. The old Roman empire had been in a remarkable degree economically dependent on the Near East since the days of Sulla and Pompey (80–60 B.C.) though the shifting of the focus of economic power eastwards was a gradual process, brought about mainly by the growing importance of the far eastern trade. The land routes by which goods passed from east to west through Central Asia are as yet imperfectly explored, but enough is known of them to show that they created some degree of prosperity in regions which are now largely desert. The policy of the Sassanian kings in Mesopotamia was to divert the eastern trade, which had hitherto come largely by sea to the Persian Gulf from India, to the land routes through Persia and Chinese Turkestan of which mention has already been made; and from the mid-third century, therefore, dates the use of the 'golden road to Samarcand'. This route (or rather these routes) passing through country where Buddhist, Hellenistic, true Persian, and Chinese influence met, is marked now by a series of ruined towns, temples, and monasteries, in the architecture and decoration of which all these influences are visible. At the time of the Mongol invasions many of the richest were destroyed, and the Arab geographer, Ibn Battuta (1304–78), notes that when he visited them they were in many instances already in ruins.

As in Roman times, the West still bought spices and jewels from the Far East. The trade which flowed through Constantinople was necessarily confined to articles which were not perishable, precious metals, precious stones, and so forth, or the rare spices such as pepper and ginger, or rhubarb which was greatly prized as a drug by western physicians. Chinese and Indian textiles and woven fabrics were traded to an ever increasing degree, and quantities of raw silk were brought to Constantinople and were manufactured in the imperial factories into fabrics which were almost priceless in western Europe. This commerce with the Far East reached its height in the sixth century. Much of the silk came overland, but some, with most of the spices, came by sea by way of Ceylon. In payment for it great quantities of gold, in the form of the Byzantine gold 'bezant', found their way eastwards among other manufactures, and so long as this currency maintained its value, as it did until Italian influence in Constantinople became paramount, its reputation, like that of sterling in the nineteenth century, was of the greatest value to Byzantine commerce.

It was still possible in the fifth and sixth centuries for Byzantium to draw largely on Egypt for her supplies of food, and her population, as that of Rome, was fed at this time largely by Egyptian corn. In the following century, however, came the Arab conquest of Egypt and Mesopotamia. This might have been fatal for Byzantine trade but for the circumstances that some time in the sixth century two Nestorian monks from China had come to the court of the Emperor at Constantinople and had offered him the secret of the production of silk which had hitherto remained in China. They are said to have smuggled silkworm eggs out of China in a piece of cleft bamboo and brought them to Constantinople. From that time dates the production of raw silk in the Byzantine empire, and thenceforward the empire became to some extent independent of far eastern supplies. The silk industry continued to grow, therefore, though in the years following the Arab conquest of Egypt direct traffic between Alexandria and Constantinople almost ceased to exist. The Arab conquest deprived Constantinople also of one of the chief sources of its corn supply, and this led to a considerable development of the corn lands of Asia Minor.

It took time for these economic readjustments to be made, but by the ninth and tenth centuries Constantinople was again prosperous, and to a large extent had restored its eastern trade. To this period belongs the prosperity of Trebizond, through which most of the goods brought overland through Asia now passed on their way to Europe. From Trebizond they reached Constantinople by sea. Moreover, the trade from south Russia, chiefly furs, salt fish, and wax, had been steadily developing and was now important, while a new land route to the Far East through Russia was already sometimes being used. Not till the eleventh century, when the trade of Constantinople began to pass into western hands, and when the depreciation of the bezant began, did the prosperity of the empire seriously decline, and its difficulties were then increased by the loss of its corn lands in Asia Minor to the Turks.

Though the Byzantine empire never attained more than a fraction of the strength of its predecessor, its civil service —the legacy of the Roman imperial system—was highly developed and was the amazement of the age. Moreover, it maintained throughout its chequered history the tradition of culture and art. The Church was a great customer for the major and minor arts. Many of the mosaics, which are one of the most noteworthy contributions of the Byzantines to artistic achievement, still exist in Greece, Italy, and Sicily, with their splendidly rich colourings, and their stiff, stately figures of apostles and saints. For splendour and dignity these mosaics have never been surpassed. Viewed from a material standpoint Constantinople was the most magnificent European city of the so-called 'Dark Ages'. The standard of living was far higher than anywhere else in the known world. The city had wealth and luxury, entertainment, art treasures, hospitals, such as elsewhere were unequalled and almost unknown. It had mercenary armies to fight its battles. Riches poured into it from its extensive territories. St. Sophia was said to be richer than all the other churches of Christendom put together.

The empire was Greek-speaking, and to some extent Greek literary traditions survived in Constantinople. Byzantine society interested itself in literature and scholarship and its scholars kept alive Greek learning and compiled histories, dictionaries, and commentaries. But Byzantine learning was comprehensive rather than original, and tended always to be fettered by religious preconceptions. A typical Byzantine figure is that of Cosmas, known as Indicopleustes, 'the man who sailed to India'. He was a merchant engaged in the far eastern trade, who in later life retired into a monastery of Sinai where he wrote the *Topographia Christiana*, a 'Christian account of the geography of the world'. This was conceived to disprove the theories of the classical geographers. His theory was that the world was the shape of Moses' tabernacle, an oblong twice as long east and west as it was north and south. He believed that the inhabited world was surrounded by an ocean, gulfs of which were the Nile, the Red Sea, the Persian Gulf, and the Caspian, and that beyond this ocean there was more land which before the time of the flood had been inhabited. The Ocean itself was the remains of the deluge. In the north there was a high mountain or cone round which the sun revolved, and the difference between the length of the day in winter and summer was caused by the fact that in summer the sun revolved round the top of the cone, whereas in winter it was lower and therefore longer obscured. These curiously simple-minded religio-geographical theories are accompanied by some valuable information about parts of the world to which Cosmas' business had taken him. He had been as far east as Ceylon.

From about A.D. 1000 onwards the power of the empire was weakening, and the most obvious sign of this was the steadily growing part played by foreigners in the trade of Constantinople. Italians obtained concessions or a 'capitulation' which granted them not only a separate quarter of the city in which to carry on business, but even, in extreme circumstances, freedom from the 10 per cent. tax on imports and exports which had been one of the foundations of the State's revenue. How the encroachments of the West led eventually to the fall of Constantinople will be told in a later chapter.

II. THE ARABS AND THE MUSLIM EMPIRE

The wealth of the Byzantine Empire was largely derived from the trade between the Far East and the West. Similarly, the wealth of the greatest rivals of Constantinople, the Arabs, was drawn from the commerce which passed through their territory, not from its own productions. It remained for the Arabs to open up directly the routes to the Spice Islands, and to China and the Far East, which had, as we have seen, for a long time been the indirect source of European supply. It was they who finally bridged the great gulf which had existed between one world and another, the Far East and the Far West. It was through them that the Chinese invention of paper came to Europe, with all its far-reaching effects, and through them also that Europe received another oriental discovery, the mariners' compass.[1]

Much of the trade of the Indian Ocean had been from time immemorial in Arab hands, but Arab political expansion begins in the lifetime of Mohammed (A.D. 569–632). The religion founded by Mohammed spread more rapidly than any other religion in history. Fourteen years after Mohammed's death Arab armies were in Damascus, and a few years later an Arab fleet attacked and captured Cyprus. Thirty years after his death the Arab empire extended from far into Central Asia to Tripoli in northern Africa. In 711 a Muslim army crossed to Spain, and before Mohammed had been dead a hundred years the territory nominally under the control of the Khalif of Islam stretched from India to northern Spain, and Sicily and even southern Italy were falling under the influence of the Arabs. Politically the empire split up into various elements almost as quickly as it had been constructed. But as an economic and cultural power it remained of the greatest significance. It created for a time the conditions under which a revival both of prosperity and of learning were possible. The actual contribution of Arab scholars and of Arab artists is not so important as the work which they enabled others to do. The empire was not so much Arab as Muslim, not a racial but a religious unity. 'Out of some sixteen geographers of note' (who wrote in Arabic), we are told by a modern historian, 'from the ninth to the thirteenth century, four were natives of Persia, four of Baghdad, and four of Spain.' The accounts of all travellers in the Middle East from the tenth to the sixteenth centuries, whether they were Christian as was Marco Polo, or Mohammedan as Ibn Battuta, give an impression of the great commercial activity of the Muslim world. Religion and commerce maintained the solidity of a unit which was politically unmanageable. Its 'upper class', if they were not scholars or theologians, and sometimes if they were, were merchants. The Prophet himself had been a merchant, a fact which partly explains the immense prestige which Muslim merchants as a class enjoyed. Ibn Battuta, lawyer, merchant, and geographer, made one of the many fortunes which he subsequently lost by joining a caravan which was taking horses from south Russia and western Turkestan to India for sale there. Almost every port which he visited in the Indian Ocean swarmed with prosperous Muslim merchants; from Kilwa, 'a fine and substantially built town' in East Africa whose 'population consists of merchants who live entirely on trade', to Calicut in southwestern India, 'which is one of the largest harbours in the world, is visited by men from China, Sumatra, Ceylon, the Maldives, Yemen, and Fars, and in it gather merchants from all quarters,' where at the time of Ibn Battuta's visit there were thirteen Chinese vessels in the harbour; to Zayton in China, 'perhaps the very largest' harbour in the world, in which there were 'about a hundred' large vessels and innumerable smaller, a whole quarter devoted to the use of Muslim merchants and bazaars of every kind, the most notable being that where porcelain was sold. Potentates seem to have thought nothing of giving a present of thirty or forty thousand gold pieces. Slaves were numbered literally by the hundred. The background of the *Arabian Nights* sounds like a romantic invention, but it is in fact something very like what the court of the Muslim ruler in Delhi in Ibn Battuta's day must have been.

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[1] Possibly printing ought to be added to this list. It was certainly practised in China as early as the eighth century, though the beginnings of printing in Europe are sometimes considered to have been independent of oriental influence.

Cosmopolitanism is perhaps the most noteworthy feature of the Arab world. Mohammedanism imposed on all its devotees who were physically able to accomplish it the duty of a pilgrimage to Mecca at least once during their life, and this institution has been of great cultural and commercial importance throughout Muslim history. Ibn Battuta, whose work has been quoted above, started his travels with the pilgrimage to Mecca. He was a native of Tangier, who during the course of his travels (1325–54) visited not only Central Africa, Constantinople, Russia, and Mesopotamia, but also the cities of Central Asia, India, the Malay Archipelago, and China, and everywhere found communities of Muslim merchants—even in China itself. He met again in Damascus a money-lender who had obliged him in Delhi. He met in China a man who came from Ceuta near his native Tangier, and talked in Alexandria to a scholar who had friends both in India and China.

A Spanish Jew, Benjamin of Tudela, gives us a short account of Islamic Baghdad as it was in his day, which indicates how considerable its prosperity must have been. It was three miles in circumference. The country in which it was situated was rich in palm-trees, gardens, and orchards, so that nothing in Mesopotamia equalled it. 'Merchants of all countries', he notes, 'resort there for the process of trade.' Its buildings included 'many large houses, streets, and hostelries for the sick poor, who resort thither in order to be cured. There are about sixty medical warehouses here, all well provided from the king's stores with spices and other necessities; and every patient who claims assistance is fed at the king's expense, until his cure is completed.' He goes on to describe the asylum in which all insane persons who were met with 'particularly during the hot season' were imprisoned and secured in iron chains until their reason returned. One presumes that this did not often happen, but they were inspected once a month, and if cured they were immediately released. Baghdad in his day (about 1164) clearly came second only to Constantinople, and he found it difficult to decide, after visiting both, which was the more splendid city. To some extent they owed their prosperity to the same source, the trade from the East. But whereas the wealth of Constantinople was drawn to a large extent from its manufacture of silks, the wealth of Baghdad came largely from its import and manufacture of cotton.

Cotton had certainly been brought from India in early times. A Latin writer in the first century A.D. who mentions it tells us that it was said to grow in great quantities on the island of Bahrein in the Persian Gulf. His information is not strictly accurate, but goods from India, in early times cotton, and later more particularly pearls and other precious stones, were certainly landed there in great quantities and bartered for the products of Mesopotamia and the north, for cereals, furs, and especially horses. The Arabs themselves eventually cultivated cotton in considerable quantities. They introduced it extensively into the territory they conquered, and its cultivation had much to do with the prosperity of Spain during the Arab occupation. By the thirteenth and fourteenth centuries its use was familiar in most of the towns of Europe; and in 1578 the will of a cotton manufacturer[1] was proved in Chester.

Another major article of commerce was slaves. At one time, when the Muslim power was at its height, Muslims established a footing even in the south of Italy and Sicily. From thence corsairs used to carry off from Italy such of the inhabitants as they could capture, and transport them to Egypt or Syria where they were put on the market and fetched high prices. When Bernard the Wise was travelling in south Italy in 867 he saw in Bari six ships carrying 9,000 Christian slaves to the East. There was a particular demand, we are told, for musicians. These slaves were sent as far afield as India and even China. Ibn Battuta was commissioned in 1342 to take a present from an Indian to a Chinese ruler, part of which consisted of 100 white slaves. The trade was so lucrative that not only Muslims engaged in it, but when one Italian city made war on another the prisoners taken were sold to pay expenses. It was recognized as a scandal against Christendom, but ordinances against it, such as the prohibition of all trade between Mohammedans and Christians, were disregarded. There is a story of the year 827, when by law intercourse with the Muslim world was forbidden, which gives an amusing example of the traffic existing at that time between Alexandria and Italy. St. Mark, patron of Venice, was buried in the Cathedral at Alexandria. He lay in the Cathedral, his shroud sealed at the centre with twin seals. Some Venetian merchants turned him over and slit the shroud up the back, so as not to break the seals, sewed up St. Claudian's body, which happened to be lying handy, in the shroud, and made off with St. Mark. They packed the body in a chest, which they covered up with vegetables and roast pork; and thus triumphantly brought St. Mark home to Venice. This is one example of many which might be given of illicit commerce between Italy and Alexandria.[1] Venetian merchants had no right to be in Alexandria at all.

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[1] It has been claimed that he is wrongly described and that cotton manufacture in England began in the 17th century.

Muslim commerce in the Mediterranean kept, however, in spite of some contact with Italy and France, mainly within the bounds of the Arab conquests. It opened up the coast of north Africa and Spain. Commerce by land, northwards to Constantinople, was also, after the initial period of aggression, of importance. Trebizond, on the Black Sea, was regarded at one time as a kind of free port between Muslims and Byzantines; a Muslim geographer of the tenth century wrote that 'all textile fabrics of Greek manufacture, and all brocades imported into Musulman territory, pass by Trebizond'. Arab coins of the date when Baghdad was at the zenith of its prosperity have been found in thousands from northern Europe to Ceylon. Benjamin of Tudela gives a good summary account of the Indian trade in the twelfth century. 'While the traders of Mesopotamia, Yemen, and Persia bring all silk and purple cloths, flax, cotton, hemp, wheat, barley, millet, rye, and all other sorts of comestibles and pulse, those from India bring great quantities of spices (later these are specified in particular as pepper, cinnamon, and ginger) and the inhabitants of the island (Kish, in the Persian Gulf) live by what they gain in their capacity of workers to both parties.' The main article of export from the Arabian empire to India and the East was grain, while from the East jewels, fabrics, and spices were received in exchange.

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[1] The commercial importance of holy relics in the Middle Ages was very great. They were an attraction for pilgrims, who were as valuable to the city as are tourists to-day.

The relics of Constantinople included the Wood of the Cross, the Holy Blood, the Crown of Thorns, the Lance, the Seamless Coat, and the Nails, not to mention the mantle of Elijah, the hair of John the Baptist, and the corpses of large numbers of Saints, and Old Testament worthies. One or two of the relics from the Byzantine collection still survive, for example, the Crown of Thorns which is now in Paris. It was taken from Constantinople at the time of the Crusades.

Traffic on the Indian Ocean in this period was regular and frequent. Arabs had travelled to China as early as the eighth century, and by the ninth fleets of Muslim merchant ships were sailing to Malabar and Ceylon, and beyond to the Spice Islands, while Chinese junks were not infrequently to be seen in the Persian Gulf. Arab merchants were also constant visitors to the east coast of Africa, of which their geographers had much information and where some of the names still in use commemorate them. When Vasco da Gama rounded the Cape at the end of the fifteenth century, he found Arab trading-vessels in the Indian Ocean, and the east coast of Africa is still dotted with the deserted ruins of their settlements. Their inhabitants used Chinese porcelain, embedded in cement, to form the decoration of buildings and pillared tombs. A Ming bowl, which may well have been traded in the fourteenth century for a negro slave, was found by the excavators of Zimbabwe, a famous ruin of negro origin in Rhodesia. The chief commodities obtained by the Arabs in Africa were slaves and ivory, much of which was taken to India, some to China. Arab slave-dealers continued to work in Central Africa until well into the present century, and their ravages were certainly as serious as those of the European merchants who took slaves to America.

A feature of Mohammedan society which has often been remarked is the influence of the study of the Koran, which has always been not merely confined to a small priestly class but obligatory on all practising Mohammedans of intelligence. While speculation was confined in the West almost exclusively to ecclesiastics, in the Near East the rich Muslim merchant was regularly not only a patron of learning but himself a serious student, and it is this which explains the flourishing state of learning in the great Mohammedan cities of this time and the prestige which scholars and men of science enjoyed. The noteworthy feature of Arab science was not its conclusions (which were largely based on Greek science and did not often go beyond it), but its enterprise in the pooling of ideas between regions separated by great distances, between Spain and Persia and India. The main channel through which Arab learning reached Europe was, as might be expected, Spain, where Jewish interpreters first made available for western minds the work of Aristotle which reached them in its Arabic translation, while in Sicily Norman rulers employed Arab geographers and physicians. The most famous of Arab geographers, Idrisi (1099–1154), worked at the Court of Roger II of Sicily. Perhaps the best-known Arab achievements are those in the realm of mathematics. Algebra—the word is Arabic—originated with them; and they gave the world, with the development of the use of the cipher (the figure 0) and Arabic numerals, a system which greatly facilitated involved arithmetical calculations. Arab medicine, particularly the work of Avicenna, was in its day widely read in Europe and was the first medium through which Greek medicine became known in the medieval world.

There are certain points of resemblance between Muslim society and society in later medieval Europe. In both, flourishing towns had come into existence primarily as centres of trade and then as places of social intercourse and the development of ideas. But whereas in medieval Europe there existed in general a definite conflict of interest between town and country, and the great feudal barons constantly attempted to prey on the towns, in the eastern world there are very few traces of such a conflict. Moreover, there was the great difference that in the East slavery was practised on a scale almost unheard of in European history. Even the great slave-gangs of Hellenistic and Roman times were hardly comparable to the swarms of slaves in the service of these oriental rulers, and there certainly was never paralleled in Europe the complete disregard of the value of individual slave lives that appears to have been characteristic of the oriental world. The main reason was, no doubt, that slaves were exceedingly cheap. In the countries east of Suez there was no universal settled administration like the Pax Romana, and each new war meant an accession to the slave population, while the exploitation of African slaves continued without ceasing until Livingstone's day, and to some extent even to the present.

Civilization, therefore, was mainly a perquisite of the upper commercial or military ruling classes. The objects of trade were still very largely the luxuries used by these classes—fresh fruits used regularly to be brought down from Chinese Turkestan for the enjoyment of the Muslim rulers of Delhi—and artists and craftsmen were largely engaged on making beautiful things for their use and enjoyment, illustrated books, metal-work, and jewels, sumptuous fabrics and ceramics. There never came into existence, at least in the case of permanent objects which have survived, any system of mass production, designed to delude people with a little money into thinking they were getting something as good as the man who had both tastes and plenty of money to gratify them.

III. THE JEWS

The two outstanding features of Jewish communities in the Middle Ages are their widespread dispersion throughout Europe and Asia, and the unity which in spite of this dispersion they were able to maintain. The explanation of both these things is to be found in their early history. The Jews were not originally a commercial people, but became commercial by force of circumstances; once the change had happened, however, these two factors were of the greatest advantage, and are largely the cause of their ultimate commercial position. 'We are not a commercial people,' wrote the Jew Josephus in the first century A.D.; 'we live in a country without a seaboard and have no inclination to trade.' Palestine was not naturally a rich country, though parts of it, during a very brief season, are exceedingly fertile, and in Solomon's day Palestine supplied Tyre with corn. Throughout ancient times it had had an importance disproportionate to its size and its natural products owing to its position on the route which led from Egypt to Tyre and thence to the Euphrates and Assyria—though the masters of the caravans were not often Jews. In the time of David, a little before 1000 B.C., Palestine prospered, owing to the alliance with Tyre. We are told of cargoes which came to Tyre from Spain, and cargoes which came up the Red Sea from Arabia of 'ivory, apes, and peacocks',[1] with Jerusalem as their ultimate destination. When Sennacherib attacked Jerusalem (701 B.C.) he agreed to retire without sacking the city provided tribute was paid to him. He himself recorded (the record is now in the British Museum) that the tribute consisted of 'thirty talents of gold, 800 talents of silver, beds of ivory, thrones, stools of ivory, elephants' skins and teeth, ebony'. It looks as if even at that time, after two centuries of obscurity, Jerusalem had some share in the trade in African and Arabian produce and, as is shown by a passage quoted above from Ezekiel, (see above, p. 6) she still supplied Tyre with wheat and honey.

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[1] It is unlikely that when the books of Kings were compiled the compiler had any idea of the significance of the expression 'ships of Tarshish' which he uses. There is ground for believing, however, that in the period of Etruscan power in Italy Phoenician ships engaged in traffic with Etruria were called 'ships of Tarshish'; and there is no reason to doubt the Jewish tradition that the period of David and Solomon was one of prosperity. See also the note on p. 6 above.

In the centuries before Christ the commercial activities of the Jews were of less consequence, even for our present purpose, than their religious genius. They had evolved religious ideas far in advance of those of the rest of the world; ideas first of the oneness of God—a god not merely of the Jews, but a god of the world; secondly, of the righteousness of God; thirdly, of the holiness of God. These developments were important even from a commercial standpoint, since religion was the force which throughout later Jewish history bound together the scattered nation. For after the fall of Samaria in the face of Assyrian attack (722 B.C.) Israelites in great numbers were deported to Assyria,[1] and with the fall of Jerusalem the same fate overtook the tribes of Judah. So began the 'dispersion', a process in the long course of which descendants of the inhabitants of Palestine were scattered throughout the known world, from India and the Far East to Spain and Britain. For over a thousand years powerful communities of Jews remained in Mesopotamia, and it was only a small minority that ever returned to Jerusalem. They had colonies in all the big cities, ruled over by their own ruler who was later known as the 'Prince of Captivity'. The successors of Alexander the Great had also seen in that party of the Jews which was favourable to Hellenism promising colonizing material, and had offered them attractive terms to emigrate in large numbers to the new cities which were being formed in the Near Eastern world. This was a second dispersion. From that time onward there were, not only in Mesopotamia, in Alexandria, Damascus,

[1] These are the 'ten' tribes which were 'lost'.

and Tyre, but in all the important Greek cities of the Near East, large colonies of Jews who generally had a separate quarter of the city allotted to them, and often had as well the right of self-government. But what at first seemed a privilege ultimately became a source of danger. The non-Jewish populations became jealous of wealthy communities who were not subject to the same laws as they, and by the opening of the Christian Era persecution of the Jewish race had already begun. Its reasons were much the same in the case of the Jews as they were in the case of the Christians, a total lack of sympathy with the Jewish standards of value. Both Judaism and Christianity represented to the Roman authorities unpleasantly obstinate fanaticism, and Judaism had the further disadvantage of manifesting at times vigorous national and anti-imperial sentiment. By the time of Nero most Romans who came in contact with Jews seem to have been convinced that the only way finally to be rid of Judaism was to attack its centre and destroy Jerusalem itself. Accordingly, when in A.D. 66 revolt against Rome broke out in Judaea, Jerusalem was besieged and taken, and fifty years later, after another revolt, the town was razed to the ground. These two wars bring about the third phase of the dispersion.

The effect of these drastic measures was precisely the opposite of what had been hoped of them. Throughout Jewish history periods of persecution have tended to be also periods when the structure of the Law becomes more rigid and uncompromising. It is, as it were, a barrier against dissolution. The trials of Judaism now produced that codification of the laws known as the Talmud which remained the basis of later Jewish unity. There are thus these two seemingly contradictory elements in Judaism of the Middle Ages—dispersion, the scattering of Jewish communities from France to India, and unity, the bond of which was the Law.

The dispersion was a valuable commercial asset, and, indeed, commerce was the natural occupation for a race which had no land of its own. The Jewish peasant was as rare a figure in the Middle Ages as he is in western Europe to-day. Jewish merchants, on the other hand, were common, so common indeed, that in chartularies of the time of Charlemagne the words 'Jew' and 'merchant' are virtually synonymous. It was chiefly the slave trade (though its scale was not comparable to that of the slave trade in classical times) which was exploited by Jewish merchants. This fact in itself may have been responsible for some of the hatred which the Jews incurred. But in the seventh century the rise of Islam was the dawn of a new and brilliant era for the Jews. Mohammed had worked on the basis of the Jewish scriptures, and Mohammedanism was more than tolerant of Judaism. Jewish guides led the armies of Islam westwards, and throughout the Mohammedan world, from Spain to the Middle East, Jews began to realize opportunities in the professions such as had never before been open to them. The first area to be affected was Mesopotamia, where new conditions at once brought some relaxation from the old rigid legalism. Judaism became liberal and intellectual in its outlook, and through the Jews of Spain, Arab and Greek science began to reach Europe. We still hear at this time of Jews engaged in many other branches of commerce besides the slave trade; Benjamin of Tudela, who may have been interested in the cloth trade, mentions the names of scores of Jews in the Near and Middle East who were dyers, and in Europe Jewish communities are specifically mentioned in the Charters granted to several German cities—as for instance Worms; while the Bishop of Spires in 1086 recorded that he had been careful to establish a colony of Jews and to grant it special privileges for the advantage of his town. But Jews in Christendom always tended to be regarded with suspicion, whereas in Mohammedan countries no disabilities attached to them; and the remarkable feature of the Jewish communities in Spain during the eleventh and following centuries was their achievement not in commerce but in the learned professions. They had benefited by the great revival of Jewish prosperity in the Near East, and rabbis of East and West corresponded and shared their ideas. Jews of the old school were sometimes shocked by the secular nature of the result—as they were shocked, for example, by the brilliant love-poetry of Judah Halevi, written in Spain in the first half of the twelfth century; but literature, philosophy, and science profited by the progress made, and even popes in the Middle Ages found Jewish physicians indispensable.

A change began with the century of the crusades, in this as in so many other respects a critical period in European history. The Jewish merchant of Christendom, a prosperous figure, offered an easy mark for persecution, by which might be satisfied both those who (like King John a hundred years later) simply wanted money, and those who wanted an opportunity for showing their religious zeal. From the first the crusades were characterized by a blood-thirsty savagery directed against Jewish communities which lay in the crusaders' way—whether in Germany, France, or in Jerusalem itself. Such persecution gradually destroyed Jewish commercial supremacy in Europe, and there were by 1250 rivals to the Jews in the local merchants of almost every town. Ultimately one profession only was left open to Jews, that of money-lending. It was about this time that usury was definitely prohibited by Canon law for members of the Catholic Church; yet with the expansion of commerce the financier was more than ever a necessary figure. Moreover, apart from the fact that only a Jew could lend money without breaking the law, finance was an obvious profession for a persecuted man. His stock-in-trade was not bulky and could be moved rapidly as victims were driven from one city to the next. By the thirteenth century a series of ordinances of the church had made slave-dealing illegal, and this deprived many Jewish communities of their means of livelihood, and these various causes combined to turn the Jews into the financiers of the medieval world. From this time the reputation of Jews for greed and for deceit begins. Risks in the medieval world were great. There was a growing demand for loans and a limited amount of cash to meet it, with the result that the rates of interest tended to soar. Nevertheless, so long as the Jew remained an indispensable factor in medieval trade he could not be altogether eliminated. There are, in fact, frequent examples—for instance in France—of edicts of expulsion which had to be modified or withdrawn when it appeared how much had been lost by the measure. In England, in 1194, Richard I was at pains to bring to justice those who had been responsible for massacres of Jews. It is clear that the Jew was playing an important part in the mercantile life of the State, and that the king could ill afford to have him frightened out of the country.

Unless some method exists for the circulation of capital, commercial development is almost impossible. The service rendered by the Jews was important, and one, incidentally, which benefited the medieval aristocracy and the mercantile towns more than the Jews themselves. The Jews no sooner made money than they lost it by confiscation or theft, while it is certainly no exaggeration to say that but for the system they created the emergence of modern commerce must have been much longer delayed.

The next stage in Jewish history comes when the Jewish financial monopoly finally broke down with the rise of the Lombard bankers. It is the fourteenth and fifteenth centuries that are critical in this respect, though Lombard bankers had begun their activities earlier than that. Not until the period of the Reformation did the taking of interest cease to be technically illegal for Christians, though we shall see that in practice the prohibition was in the more prosperous areas widely disregarded. In England, by the end of the fourteenth century, financiers of English birth were already beginning to play an important part. Dick Whittington, who began his mercantile career in the cloth trade and became Lord Mayor of London in 1398, is said to have held, in 1421, royal bonds to the value of £60,000 which he destroyed as a munificent compliment to Henry V and his queen. There can be no doubt that in the attack on Jews which marked the fourteenth and fifteenth centuries on the continent of Europe financial jealousy played a part. In England the result was the expulsion of the Jews,[1] and they did not return till they were readmitted by Cromwell. Religious fanaticism was involved —particularly in Spain, where the persecution of the Inquisition was directed as much against Jews as against Protestants— and the result was a complete transformation in the status of the Jew. In some of the cities of Germany Jews continued to maintain a wretched existence, since there united action against them was not possible in the way that it was in England, France, and Spain, but in Germany, too, persecution was often intense, and from there as from Spain there was a general exodus eastwards of those who were lucky enough to escape with their lives. The German Jews (Ashkenazim) found refuge chiefly in Poland and Russia, the Jews of Spain (Sephardim) in Turkey and the Orient, though Spanish Jews who had maintained their religion in secret and who made their way to Antwerp and Amsterdam, when the provinces revolted from Spain in the sixteenth century, formed an important element in the great business community of Amsterdam, which in the seventeenth century was to become the financial centre of the world.

III

WESTERN EUROPE AND ITS CONTACT WITH THE EAST

I. ITALIANS AND NORSEMEN

WE have seen in an earlier chapter that production for export to distant commercial centres gradually ceased in western Europe towards the end of the third century A.D., and though the Church maintained the spiritual, and to a very large extent the cultural unity of Christendom, as an economic unit the Roman empire of the west had no political successor. Urban life did not entirely cease, and the view still sometimes put forward that the Roman empire was succeeded by an age of complete barbarism is quite fallacious. There were certain towns in Italy, notably Ravenna with its strong connexions with the Byzantine empire, which during the Dark Ages were conspicuously prosperous. The splendid churches of Ravenna and in particular their mosaic decorations are the greatest monuments of the time. Indeed, the Church was the most important customer of such industries as existed; it was the Church that bought stone and marble for building gold, silver, and precious stones for decorations and reliquaries, the Church that employed builders and craftsmen in many different materials for its adornment. It was of the Church that St. Bernard wrote that 'She clothes her stones in gold, and leaves her sons naked'.

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[1] There were no Jews in London in Shakespeare's day, and he got the plot of the *Merchant of Venice* from a book written by an Italian, Ser Giovanni, in 1378. This Italian story of a Jewish merchant demanding the death of the Christian who owes him money is typical of the period at which Giovanni wrote.

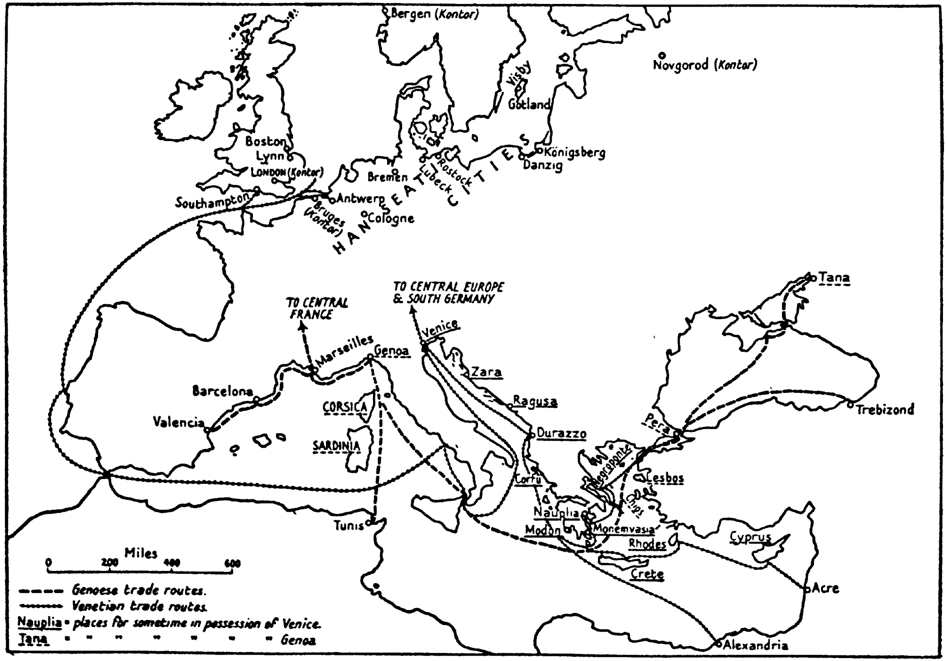
In themselves these monuments often imply commercial contacts between different regions. Some of the work on the fifth-century buildings of Ravenna was certainly done by craftsmen from Thessalonika. The earliest churches built in England after St. Augustine's mission were built by Italian workmen. On the other hand, the ordinary man lived a life almost completely independent of supplies brought from a distance.

Of the various Italian cities which became great in the Middle Ages, Venice was the most important commercially. Her power reached its zenith by the end of the Middle Ages, by which time she was in a position to defy kings, popes, and emperors, and this power was almost entirely based on economic prosperity. The Venetian authorities were always aware of the importance of the city's commerce and were generally powerful enough to afford it some measure of protection, in a period when security was the rarest of all commodities.

The position of Venice marked her out to be the port through which goods from the East were taken to central Europe up the Adige valley to the Brenner, or to Vienna, or across the north Italian plain to Turin and to the western Alpine passes. Her own manufactures were ultimately quite subordinate in importance to her carrying trade. She was, in the early Middle Ages, a 'city of shop-keepers'; she bought in the East and sold in the West. Shakespeare's *Merchant of Venice* had his argosies over the whole eastern Mediterranean, not to mention Mexico which, at the date he may be presumed to have lived, was not yet discovered. By the time of Charlemagne (A.D. 800) the Venetians had almost a monopoly of the trade between the Levant and western Europe. Charlemagne's courtiers, we are told, were clothed in stuffs brought by the Venetians from the East, 'skins of phoenixes, necks, backs, and tails of peacocks, and garments of Tyrian purple with borders of intense orange colour'.

The Doge or Duke of Venice and his advisers represented the rich business men, and the city was in fact run almost as a commercial institution. Her foreign policy was directed in accordance with the needs of her trade. Her obedience to the Pope himself was only a secondary consideration when her commerce was at stake. In the later centuries of her supremacy she sent yearly a merchant fleet, 'the Flanders Galleys', to England, and on to Flanders. In 1317 'the Flanders Galleys' brought 100,000 lb. of sugar and 10,000 lb. of sugar-candy to Southampton. This enterprise was managed by the State, and the admiral was appointed by the Grand Council. In the two centuries following the Norman Conquest the power of Venice further increased (as we shall see in the next section), and its prosperity was shared by others of the North Italian republics, notably Genoa. Their activities expanded in new directions, and in addition to handling the far eastern trade, manufactures, and in particular the manufacture of woollen cloth, began to be undertaken, and financial operations on a large scale were directed by the Lombard bankers.

The period of the rising prosperity of Venice also saw the gradual formation of a fresh commercial nucleus round the shores of the North Sea. During the Dark Ages and Middle



III. VENETIAN, GENOESE, AND HANSEATIC TRADE IN THE LATER MIDDLE AGES

Ages the Roman imperial road-system fell gradually into disrepair. English roads were better in A.D. 1000 than they were in 1300 simply because at the earlier date there was more of the Roman roads left. They were not adequately replaced in Europe until the late eighteenth century. Up to that time the sea and such inland waterways as were available had a disproportionate importance compared with the present, and though journeys by sea were infinitely more hazardous, the use of smaller boats made smaller rivers navigable for sea-going ships, and inland cities (as, for example, Norwich) were often ocean ports.

The development of the North Sea as a commercial highway is due largely to the Scandinavian peoples. These vigorous and enterprising seamen, of extraordinary skill and daring, found their way during the Dark Ages about the coasts of the Baltic, the North Sea, and the Irish Channel. We are fortunate in possessing in the Norse legends some indication of the spirit of this period. It may perhaps best be seen in a contrast. Their legends of gods and heroes are characteristically different from the Greek legends. The Norse stories are full of the spirit of the struggle of man with nature, of storm and wind and thunder. Their ideal is strength and bravery rather than intelligence. Wisdom was the prerogative of the father of the gods and was the kind of thing with which man did not meddle. Their imagination was peopled with spirits of the rivers and forests; there is in the bones of their romance a feeling of the immensity of the ocean and of the keenness and bitterness of northern life. In comparison with Norse, Greek legends are sunny and human and their gods like men rather than like earthquakes. They may rule the ocean, as did Poseidon, but they are not of the same element with it. The Greek hero is generally beautiful to look at, athletic rather than strong, and very shrewd. The Olympians had an incurable love of meddling with human affairs and were constantly involved in mortal entanglements. The Norse gods, not ruling but contending with the forces of nature, were themselves elemental powers, and cared little for human affairs beyond granting death in battle and daily fighting in Valhalla to those whom they favoured.

Order and security in Britain suffered with the break-up of the Roman Empire as they suffered elsewhere. The Saxon invasions brought to England a people who were unaccustomed to urban life and avoided it. The scanty literary records which survive of English history in this period of transition (for example, the work of the Chronicler Gildas, the title of which, *A tearful discourse concerning the ruin of Britain*, speaks for itself) record the terror which the invaders inspired, and to some extent they can be supplemented by archaeological evidence—for example, by hoards of Romano-British plate and coins found outside this country, finds which witness that the age was also one of piracy. Scandinavian pirates sometimes came to stay, and western place-names still bear traces of this settlement or contact. They settled also in France and in Russia, where they were the first western Europeans to reach Moscow and the richer city of Kieff; and they passed through Russia to the Black Sea, and so to Constantinople, or down the Volga to the Caspian. In the ninth century Norse invaders of Russia led by Rurik formed a settlement at Novgorod which was to become one of the great markets of eastern Europe, and from the name of this tribe the word 'Russia' is derived. They discovered Greenland, so called perhaps because its discoverers wished to give it a name which would attract settlers. They sailed down the coast of America probably as far as Cape Cod, and it is possible that a Norse inscription found in the United States may be actually a contemporary record of one of these voyages. They called this coast Vinland. But no inducement like the gold which Columbus secured or his hope of discovering a passage to China, encouraged them in far western exploration. It was the chance of plundering an old country which chiefly appealed to them. A Norse adventurer, Sigurd the Crusader, sailed in A.D. 1110 into the Mediterranean, landed in Syria, and found his way with his followers to

Constantinople. The wealth of Constantinople amazed Sigurd and his followers; but they were determined not to show their surprise.

> 'The Byzantine Emperor had precious cloths spread out from the Gold Tower to Loktiar, which is the name of the emperor's most splendid hall. But King Sigurd had his horse shod with golden shoes before he rode into the city, and managed so that one of the shoes came off in the street, but that none of his men should regard it. When King Sigurd came into the magnificent hall, everything was in the grandest style; and when King Sigurd's men had come to their seats, and were ready to drink, the emperor's messengers came into the hall, bearing between them purses of gold and silver, which they said that the emperor had sent to King Sigurd: but the king did not look upon it but told his men to divide it among themselves. When the messengers returned to the emperor and told him this, he said: "This king must be very powerful and rich not to care for such things or even give a word of thanks for them;" and ordered them to return with great chests filled with gold. King Sigurd said: "This is a great and handsome treasure, my men; divide it among you." The messengers returned and told the emperor. He replied: "This king must either exceed other kings in power and wealth, or he has not so much understanding as a king ought to have. Go thou now the third time, and carry him the costliest purple, and these chests with ornaments of gold:" to which he added two gold rings. King Sigurd then put the gold rings on his hands, and made a beautiful oration in Greek in which he thanked the emperor in many fine expressions for this honour and magnificence, but again divided the treasure amongst his men.'

This story has been embellished by a Scandinavian poet in honour of his hero. We know from Anna Comnena, a Byzantine princess of the time of the First Crusade, that the emperor was embarrassed by the presence of barbarians in his capital, but that they were too lusty for him to care to throw out. Yet however thick the layer of romance, the story shows the fascination which the riches of the Near East, the 'Old World' of the Middle Ages, had for the Norsemen, and how the thought of gold and jewels and precious stuffs dazzled them. Of similar raids in the North Sea we have fuller information from contemporary British sources. They were largely of the same piratical character. In 850, 350 Danish ships wintered off Thanet on their return from a plundering expedition to the Continent. In 980 men 'from the North took Chester and burnt Southampton'; in 991 a fleet of 93 raiders sailed up the Thames, and the ultimatum they are recorded as having delivered is characteristic. 'Send quickly', they said, 'rings for your safety; it is better for you to buy off with tribute this storm of spears than that we should share the bitter war. . . . We will with gold set up a truce. We will go abroad with the tribute, and sail the sea, and be at peace with you.'

These examples are chosen as fair illustrations of the character of the sea-raids. They are important because they led to settlement as well as destruction and to the introduction, incidentally, of a vital influence into contemporary British art. And they were the origin of commercial navigation in the North Sea. Though the sea remained centuries later infested with pirates, it gradually began to be used as a commercial highway. As early as the time of Charlemagne (*c.* A.D. 800) an agreement had been reached between the emperor and an English king (Offa) for the mutual protection of their merchants. Cnut also was concerned to promote trade between England and Italy. By the reign of Edward the Confessor, Rouen merchants had already been allotted moorings in the port of London. The Norman conquest opened up the country more directly to foreign influences and thenceforward foreign trade greatly increased.

In the century previous to the conquest Italian penetration of English commerce had already begun, and it remained important throughout medieval times. In the earlier part of the period no manufactured goods were exported from this country, but it was already one of the most important centres for the production of wool. Far the greatest producers were the monasteries, and, especially in the post-Conquest period, the great Cistercian houses, whose vast buildings such as those of the famous Yorkshire abbeys of Fountains, Rievaulx (founded 1131) and Jervaulx were paid for largely out of the profits which they obtained from the sale of wool. In two extant lists of English abbeys dealing in wool with Flemish and Italian merchants in the early fourteenth century, Lincolnshire has no less than thirty-seven abbeys and Yorkshire thirty-six; in 1443 the detailed accounts of a Venetian merchant show him buying from the Abbot of Gloucester, the Prior of Llanthony, the Abbot of Oseney, and the Abbot of Winchcombe £400 worth of wool. The goods which he sold in England are also worthy of note, since they are characteristic of the nature of Italian imports into England throughout medieval times. They were partly from the Far East, such as his five bales of pepper which fetched approximately £20 each; partly from the Near East, as silks from Baghdad and stuffs from Damascus, 'brocaded with pure gold'; he sold also cloth of gold, currants from the Levant, and silks from 'Tartary' (possibly Chinese brocades or imitations of them). To this list might be added the wines of Crete and Greece which were frequently brought by Italian middlemen to England. 'Malmsey' wine came from Monemvasia, in Greece. The woad sold by this same merchant, a blue dye which was always in considerable demand, may have been shipped by him from France. By the thirteenth century such Italian merchants were already travelling in England to buy wool from the great monastic houses, and the capital at their disposal made it possible for them to pay for the wool sometimes many seasons before delivery was taken. In the early period it was thus the raw material that was exported, to be manufactured in Flanders or in Italy largely for export to the Levant. If a list of imports similar to that given above were available for the twelfth century, it is probable that the contents would be less Levantine in character. Woad, wine, and building-stone from France had been the commodities with which Italian buyers during the twelfth century paid for English wool.

From quite early times also an important proportion of

Italian exports to Britain were invisible, consisting of the financial services which Italians rendered. The Jews, as we have seen already, never played so large a part in English commercial life as they played on the Continent, and after their expulsion at the end of the thirteenth century large-scale credit operations in England were almost entirely in the hands of north Italian bankers, the 'Lombards'. Lombards were lending money in England well before this date, for in a characteristic instance of money borrowed from Florentine firms in 1252, though the loan was nominally free of interest, in fact the 'contingent damages', which would fall due if the loan was not repaid the following year, amounted to 60 per cent. By the end of that century representatives of many Italian firms from France, Lucca, Siena, and elsewhere were operating in England, and in 1345 Edward III's debts to the Florentine firms of Bardi and Peruzzi amounted to 1,500,000 gold crowns, approximately £8,000,000. These details, incidentally, throw some light on the sources of the wealth of Italian renaissance patrons. The Medici themselves were a great Florentine banking family.[1] They spent the money they thus made on their magnificent palaces, on pictures, on Greek and Roman statuary and jewels, and on manuscripts.

The connexion between England and the Low Countries was naturally in many ways closer than that with Italy, though different in character. The Flemish cities which had originally owed their existence mainly to their position at the western end of the land route by which oriental goods were brought to northern Europe, had developed industrial as well as commercial interests, and until England began to manufacture her own wool on a commercial scale, a manufacture which started during the fourteenth century, the bulk of it was manufactured in Flemish towns, and the prosperity of urban life in the Low Countries during the medieval period was largely due to this manufacture. Thus, while in France and England it is a period of great ecclesiastical architecture, in the Flemish towns some of the most notable buildings of the time were secular in purpose. From here also wine which came from the Rhineland was an important export to England, and in addition England bought considerable quantities of French wines.

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[1] Cosimo de Medici (d. 1464) was connected by marriage with the banking house of Bardi, mentioned above, whose commitments in England were very large.

The conflict between town and country is sharply marked during the medieval period, and this in spite of the fact that towns were dependent on the produce of their immediate neighbourhood in a way which they no longer are. In north-western Europe as a whole the conflict is even more conspicuous than it is in England or France, since the central authority of the king was greater than the authority which the emperor exercised in Germany and in western Europe in general. Trade was almost entirely confined to the towns, and the great feudal lords and princes made constant efforts to secure, by levies of one kind and another,[1] or by direct attack, some share in this commercial wealth. Many advantages in this struggle lay with the towns. They could command an adequate supply of capital, as the huge medieval walls of many of them show; their welfare was of paramount importance, at least in England, to the king, since (from the eighth century onwards) taxes on foreign trade produced a considerable part of his cash revenue; and both in England and in northern Europe as a whole they tended to use their money to buy privileges from the king or emperor in the form of charters, which often gave them, with certain limitations, virtual independence. The governing authority in these medieval towns was generally mercantile in character —though towns were sometimes founded by lords and bishops and regulated by them. Their corporation represented merchants engaged in trade or industry within their walls, and each town tended to regard itself as an individual political and commercial unit. A merchant from another town was a 'foreigner', and if he committed any kind of crime reprisals were regularly carried out against the merchants of that town as a whole.

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[1] These levies are an important feature of medieval trade. Wine from Gascony brought to England by way of Bordeaux had to pay tolls first to seigneurs and ecclesiastical and municipal authorities owning the banks of the river, in some places as many as three tolls being payable, one to the Castle, one to the priory, one to the commune. At Bordeaux it paid the 'great custom' of 15 solidi (approx. 3*s.* 9*d.*) per cask, and in addition a fee for gauging, and the 'small customs'. A small sum was payable as the ship passed the harbour beacon-tower for its maintenance, and that of the attached chapel; and after the cargo arrived in England and the English harbour dues had been paid one cask in every ten might be bought by the royal officials at the fixed price of 20*s.*, which was in fact approximately the cost of transport only. Casks were gauged again on arrival in England and on their journeys inland had to pay similar levies to those incurred in France. This example is taken from Salzman, *English Trade in the Middle Ages*, p. 393 seq.

But in the population of western countries taken as a whole the mercantile element was small. Commerce was not the natural but an extraordinary activity—something which the ordinary framework of society was not constructed to include. That was why the Church, which was part of the traditional framework of society, held the view that commerce, if permissible, was a danger to the man who practised it and to society, and that usury meant damnation. The towns indeed represent a new and a disruptive force. They are medieval, but they are at the same time modern. Until the fourteenth and fifteenth centuries they were small in size, the dominant element was overwhelmingly rural, and the economic system the self-sufficient rural unit. Castles and villages were almost unaffected by the necessity to trade. This made possible the high prices which luxuries fetched. In 1300 Edward I bought sindon (a kind of silk cloth) at 16*s*. the yard, samite (also silk) at £4 10*s*. the yard, and cloth of gold of Turkey actually at £7 a yard, while as late as the time of Henry VII over £6 was being paid for the rich varieties of cloth of gold. Money was available for luxuries of this kind only because the ordinary living of the ordinary man cost him nothing at all. Even the baron's wealth consisted largely in the service and the produce regularly due to him, and the amount of cash which passed through his hands was generally very small. It is, of course, true that as the period advanced and as conditions became more settled, country districts began to be penetrated by commerce; but the decisive step between the old and the new was not taken until the end of the period covered by this chapter; when in the reign of Henry VIII the great wool-producing estates passed from the hands of the Church into private ownership.

These two aspects of medieval society show the two different features of medieval civilization which are most noteworthy. One—and in its development it is the later of the two—is the prosaic prosperity which produced mayors, aldermen, and corporations, who are among the relics of medievalism surviving in the administrative system to-day. Another is the spirit of the country and of the monastery, a spirit which is so remote from modern life as to be scarcely comprehensible to us. In many ways it is limited, while in others its productions are astonishingly great. Politically the ideal of Christendom was not realized, and the princes of northern Europe in the twelfth century already defied the Pope when it suited them to do so, but culturally and to some extent commercially, it was. Even the commerce of the towns was shot through with more than a streak of religion. But it is in the Church, and particularly in the monasteries, that the medieval 'spirit' can be seen at its purest, for all knowledge was the handmaid of religion and the monasteries were the only houses of knowledge. There is a noble humility about the greatest medieval thinkers, and their detachment from every form of worldliness (natural when they lived lives so remote from the world) gave them an insight which it is difficult for us to recapture. Modern writers talk glibly about finite and infinite, or quote astronomical figures of space or time; we speak easily of the distances of stars, of which we have very little conception. The medieval thinker knew nothing of the material facts of the universe. He knew nothing of the first results of chemical analysis. But when he talked about the infinite nature of God, he did so with insight and grasp which it is not easy for moderns, whose minds are full of the discovered facts of astronomy or physics, to attain. We know too much about the finite to be able to conceive the infinite.

In medieval commercial theory the theological background was most important. It was not merely that the Church looked with disfavour upon usury and that, though its decisions were evaded regularly and its views to some extent modified by the end of the Middle Ages, it threatened and often undertook punishment of money-lenders. It was assumed that the merchant ought to work not merely to make his own living, but for the good of society as a whole. It would have seemed as gross to conceive of the ordinary merchant as working for profit as it would be now to conceive him as working purely to satisfy his appetite. The man who bought simply in order to sell at a higher price was regarded by public opinion not as a skilful business man but as a parasite on society. The object of the organization into guilds characteristic of this period throughout western Europe was originally to ensure that standards of public service were maintained and that individual craftsmen or merchants did not make excessive profits at the expense of their competitors. The Guild saw to it that apprentices had the requisite skill before they were admitted to be masters of their craft. It ensured that the just price and not more was paid by the public. The Guild was, in fact, the repository of custom—and it was custom, not competition, which was the framework of medieval commerce. Thus like all other medieval institutions, it regarded the world as static, and tended to stifle progress. Competition is dynamic, but the price which society has paid for the change is the relaxation of control—which in the medieval world was exercised on its behalf by the Church.

The position of the Guild gave it, in fact, dangerous opportunities for abuse. It was in essence monopolistic, and (especially in the latter part of the period) this advantage was exploited. All through the Middle Ages there were merchants who swindled and merchants who worked purely for profit; but the fact remains that the standards ordinarily applied to commerce both by popular opinion and by the merchants themselves were different from those of to-day, and that, as in every other department of life, so also in commerce, the ordinary standards by which transactions were judged and on which theories were founded were religious in origin.

II. THE CRUSADES

The growth of Genoese and Venetian commerce was an obvious threat to the position of Constantinople. It is scarcely surprising that in the eleventh and twelfth centuries attempts were made by the Italians to secure an independent footing on the Bosporus to avoid the dues which Constantinople levied. And by the beginning of the century of the crusades (1100–1200) Venice had already a secure footing in Levantine trade, which was assured her still further when, as a result of the first crusades, she obtained her own quarter in Sidon (1102) and in Tyre (1123). Her trade with Constantinople increased steadily, and by the middle of the century there was a large Venetian quarter in Constantinople, and the behaviour of the Venetians was the cause of concern to the imperial authorities. Venice's rival, Genoa, was as advantageously placed for trade with France as was Venice for trade with central Europe. It was on the instigation of the Genoese that the Byzantine emperor in 1171 arrested many of the Venetians in the city and confiscated their goods. An expedition planned to avenge this insult failed, but thirty years later the fourth crusade gave Venice full measure of revenge.

This rivalry of Venice and Genoa and the hostility between Venice and Constantinople are part of the history of the crusades as a whole. By the eleventh century the Arab empire had fallen into decay and a number of separate kingdoms were forming within it. On these there had descended a new barbarian power from the East, the Turks, scattering the armies of the Near East before it. Jerusalem was taken by the Seljuk Turks a few years after the Norman Conquest of England, and in the sack of the city the Turks massacred Christians and Saracens alike. The Turks became converts to Islam, and this made more easy their absorption of Asia Minor; it was the Christian pilgrims who were the chief sufferers by the change. Throughout the Middle Ages peculiar importance was attached to pilgrimage and to the relics of saints. The pilgrimage to the Holy Land was the greatest religious undertaking which a man might make. Pardons began when the pilgrim first set foot on holy soil, and every step nearer Jerusalem meant an approach to paradise. In Jerusalem even the murderer might find pardon for his sins. The sack of Jerusalem and the massacre of Christians in its monasteries thus shocked western Europe deeply.

Besides the two obvious elements, deep religious feeling and shrewd statesmanship (for the leaders of the Church saw in the Crusades a way of eliminating national dissensions), there were other motives not so disinterested. Many Crusaders set out from France and Sicily partly in the hope of carving out new kingdoms and principalities for themselves in the East, and partly in the hope simply of making money. The story of the Crusades is a strange blend of greed with fanaticism and theology. Many Crusaders succeeded in making themselves rich men. Some found principalities in Asia Minor to which, even if Jerusalem was not yet occupied, they were well content to retire. Thousands died of starvation, comforted by the thought of the 'martyr's crown' which by common consent awaited them in heaven. It was a singular mixture of seeking comfort for the body and comfort for the soul.

The effects of the early Crusades on commerce could not but be considerable. They were followed by a brilliant revival of Levantine trade. Jerusalem passed back into Christian hands for a hundred years, and during all that time direct intercourse between East and West was maintained. The ideas of the East, and in particular the classical culture of Constantinople, began to filter through to western Europe, and to affect both its spiritual and its material life. Returning Crusaders brought with them every kind of novelty, from geographical ideas to a new kind of fruit-tree or a Byzantine reliquary or a bale of damask or a cup of Egyptian crystal, and the contact was not merely transient. Much later, western European cities still kept their 'Consuls' or representatives in all the big towns of the Levant.

To the Venetians and Genoese, who were the contractors for them, the Crusades were a source of great profit. They arranged, at a large fee, for the transport of such stores as arrived; sometimes they also provided the brains (a commodity of which the Crusaders stood in considerable need) of the fighting forces, and in the First Crusade the capture of Jerusalem was largely due to the skill of Genoese engineers. As the century of the Crusades (1100–1200) advanced, however, an unsatisfactory tendency began to show itself. Political and religious questions, both of which were at the moment much the same thing, became overshadowed by business anxieties. It was no longer the fate of the Holy City, but the fate of Venetian investments which was of paramount importance. By the time of the Fourth Crusade the change was completely manifest. Jerusalem, for ninety years under a Christian king, had fallen again into Mohammedan hands, and in that crusade the religious feeling of united Europe roused itself for the last time to recapture the 'pearl of great price'. Innocent III, the Pope of the Fourth Crusade, was one of the greatest statesmen who ever held that office. There was no lack of care shown in the planning of the Crusade. It had long been recognized that Mohammedan power was based largely on the control of Alexandria; Christian writers who at that time and later discussed the possibilities of its overthrow realized that at Alexandria the first blow must be struck. Representations were made to Venice that she should provide transport and supplies for the

Crusading armies. It was finally arranged that Venice should provide a fleet sufficient for the transport to Egypt of 4,500 knights, with their horses, and 20,000 foot; that she should keep this army supplied with food for nine months, and should herself send a fleet of fifty galleys. In return, the pilgrims were required to pay, before their departure, a sum of 85,000 marks of silver, and to agree that of all conquests Venice should have a half share. At the time arranged the Crusaders gathered in Venice ready to embark for Egypt, but they could not raise the sum which had been agreed. Fifty thousand marks only were forthcoming. The Venetians would not let so small a matter stand in the way of the Crusade, and they agreed to count the debt as paid if the fleet would sail first to Zara, a port on the coast of Dalmatia which had revolted from Venice and had appealed to the King of Hungary for protection. Though the king was a Christian, and had himself taken the cross for the crusade, and though the Pope had expressly forbidden this expedition against Zara, it was nevertheless carried out. Moreover, Venice had entered, unknown to the Crusaders, into a treaty with Alexandria, which gave her commercial rights in the city, including a quarter of her own within its walls. She began to urge, therefore, the claims of a usurper to the Byzantine throne, pointing out the advantages of his suggestion that in return for the Crusaders' help in the capture of Constantinople, he should make arrangements himself, once he was established there, for the attack on the Holy Land. The offer meant the leading of the Crusade against a Christian city, Constantinople, instead of the Mohammedan Alexandria. But there was the excuse of a religious quarrel, for the eastern Church was now separated from communion with Rome. Moreover, Venice had fitted out the expedition and Venice was providing its supplies. The expedition crossed the Aegean, confronted Constantinople, the last outpost of Europe against the Mohammedan Turk, relic of the Roman empire, and throughout the Dark Ages the only home of traditional Greek culture, and still the richest of all cities in the world. Constantinople was taken and given over to pillage, and its emperor became for the time the creature of the trading cities of Italy. In the sack of the city the priceless treasures of antiquity were destroyed. Venice added to her empire the islands of the Aegean and the shores of the Propontis and Black Sea, her possessions being governed for her by members of the great commercial families who were granted fiefs in them.

The story of the Fourth Crusade is interesting because it is an early notable example of Machiavellian politics. Machiavelli himself was an Italian of the time of the Renaissance, writing for Italians. In the background of his theories there is the powerful commercial city-state, such as the Genoa and Venice of this period, and he believed that the man who was at the head of such a state should have no scruples, and should not hesitate to use any means, whether good or bad, for his city's advancement. Machiavelli's philosophy has become proverbial as the philosophy of 'international anarchy', and its author has been almost universally condemned. Yet his theory was based on the practice of great statesmen of his day, and in so far as he believed in the frank statement that the issue was power, and refused to disguise it, or excuse it, by such phrases as have constantly been used by statesmen since, his work must be reckoned supremely honest and, for that reason, a masterpiece.

The Crusades are among the major events of European history, and by opening the door to the Near East, and establishing contact with the Greek traditions in Constantinople and the traditions of the south-east Mediterranean, influenced not only the commerce, but also the culture of Europe profoundly. But it must not be forgotten that medieval civilization had always been cosmopolitan in character. A writer describing Pisa during the period of the Crusades tells us how its streets were thronged 'with Pagans, Turks, Libyans and foul Chaldeans'. All the great cities were cosmopolitan and, in many, depots or factories or whole streets were devoted to the merchants of Germany, England, Lombardy, Marseilles, or Barcelona. Medieval trade played an important part in fusing the elements out of which modern culture was created. At Tabriz, on the borders of Persia, there existed towards the end of the thirteenth century a colony of Venetian merchants who brought thither goods (chiefly woollen goods) from North Italy, Germany, and Flanders, and brought back in return for them pearls, sugar, precious metals, and the other familiar imports from the East.

III. THE MONGOL EMPIRE

The victory of the Fourth Crusade brought Venice into contact with the Mongol power which, for a brief period, was one of the most successful in history. Asiatic invaders had been known, as early as Ezekiel, as Gog and Magog, and Mohammed foretold the 'breaking loose of Gog and Magog' as a preliminary to the end of the world. Many people in Europe in the thirteenth century believed that Mohammed's prophecy was about to be fulfilled. Gog and Magog had broken loose indeed: Mongol armies had subdued an extent of territory which stretched from the ancient empire of China to the borders of Poland; Kieff, the 'mother of cities', and Budapest had been burnt. The only serious policy which the Papacy, as representing Christendom, offered was that of missionary activity. By this means it was hoped that the Mongol would be humanized and the sting of the threat removed.

The eastern conquests of Jenghiz Khan (1162–1227) had given to a comparatively obscure Mongol tribe the empire of northern China which for the past century had been ruled by another foreign dynasty, the Kin. As emperor of northern China he was interested in its western connexions, and an embassy was sent by him to Mohammed, shah of Persia, with presents and with the following message:

'I send thee greeting: I know thy power and the vast extent of thine empire; I regard thee as my most cherished son. On my part thou must know that I have conquered China and all the

Turkish nations north of it; thou knowest that my country is a magazine of warriors, a mine of silver, and that I have no need of other lands. I take it that we have an equal interest in encouraging trade between our subjects.'

The embassy was well received, but for some reason a party of traders which followed was arrested and its members executed as spies. So far from giving satisfaction for this breach of the peace Mohammed seized the ambassadors sent to demand it, put one to death, and (to add the last and most extreme insult) sent back the rest without their beards.

The war which followed is one of the most sanguinary in history. The golden road to Samarkand ran with blood. Bukhara, one of the greatest commercial cities of central Asia, was sacked and razed to the ground. Samarkand and Merv fell, and it is said that 1,600,000 people were massacred in Herat when a subsequent revolt was suppressed. This invasion destroyed the great central Asian trade route through Persia and Mesopotamia, and its prosperity never completely revived; and the growing interest in the Black Sea ports (and especially in Caffa, in the Crimea) which begins at this time to manifest itself, though in part the result of the developing of the natural resources of Russia—grain, salt fish, wax, honey, and furs—is mainly due to the fact that spices from the Far East now began to reach Europe by way of Siberia. When the traffic was interrupted in 1343 as the result of a temporary dispute with the authorities in Caffa, the price of spices in Italy doubled.

The Mongol princes (though not the rank and file of their armies) showed a remarkable capacity for absorbing the culture of the peoples they conquered as well as for exterminating them, and it is characteristic that two of the most interesting monuments of ancient China, the stone drums of the Chou period (1122–233 B.C.) which bear important inscriptions and which now stand in the gateway of the temple of Confucius in Peking, were preserved by the action of a Mongol prince. A writer of the mid-fourteenth century says that 'the road you travel from Tana (on the Black Sea) to Cathay is perfectly safe, whether by day or night, according to what the merchants say who have used it'. This security is the most noteworthy achievement of the Mongol empire, and it has been called by a recent writer the 'Pax Tatarica'; but when one recalls the destruction of Bukhara and of Baghdad, and remarks that when the Great Khan died and was carried to his grave no human being was allowed to remain alive within five miles of the route, one is reminded of the comment on that word made by an ancient critic of Roman imperialism: 'They make a wilderness, and call that peace.'

Our accounts of this empire, with its equally rapid rise and decline, are unfortunately meagre. We have the journals of two missionaries who made their way through Asia in the hope of converting the Mongols to Christianity, twenty years after the death of Jenghiz Khan (died 1227). More valuable, however, is the work of the greatest of all travellers, Marco Polo, the Venetian, who visited China fifty years after Jenghiz's death.

Marco Polo travelled widely in Asia, under conditions far more favourable than any other European had travelled before him. He penetrated to countries, some of which no European reached again until the middle of the nineteenth century. As a result his work was subsequently used as a guide-book, and every item of fact or fable brought back by travellers from the Far East tended to find its way into one of the manuscripts of Marco Polo. Furthermore, he saw some things which to a European were strange and astonishing, and these were elaborated first by himself and later by copyists, in the endeavour to make a good story better. Interwoven with the narrative there are actually many of the romances which were afterwards collected in the *Arabian Nights*.

Yet in spite of the difficulty of discovering precisely what he wrote and how much of what he wrote was true, he is an invaluable source of information. He came of a family of Venetian merchants. His father and uncle began in 1260 a trading journey to the East. They passed through Constantinople and crossed the Black Sea to the Crimea,[1] their intention being to sell jewels to the Tatar princes. Circumstances intervened to make them pursue their journey farther afield than they had originally intended, and they were away in the East for nearly ten years, visiting the court of the Great Khan Kublai. He showed them considerable favour, and commissioned them, on their return, with a message to the Pope—a request for missionaries, and for a cruse of oil from the lamp in the Church of the Holy Sepulchre in Jerusalem.

When they set out again for the East, Marco accompanied them. They sailed to Ayas—the town called Lyeys by Chaucer in the Prologue of *Canterbury Tales*—whither there was a service from Venice, and started inland from Acre. Owing to the disturbed state of Syria they could not take the ordinary caravan route across the Euphrates, but were forced to undertake a detour northward, through Erzerum and Tabriz, in order to reach the Persian Gulf. They had intended to do the journey from Ormuz, on the Gulf, by sea to China, and long though it was, this was by no means an unusual journey for Chinese merchants of the time to make; but finding no ship which they could trust they continued the journey overland. They made their way northwards through Persia and Afghanistan, striking at last the route which the caravans had taken in Roman times, over the plateau of the Pamirs, 'the roof of the world,' to Yarkand and thence on through immense distances of steppe and desert to the borders of northern China. The missionaries accompanying them turned back in Syria, but the Great Khan welcomed the Polos enthusiastically. They remained for seventeen years in the Far East, the Great Khan being reluctant to allow them to go home. An opportunity did not come till 1292. A princess had to be sent as a bride for the Khan of Persia, a dependant of Kublai, and no escort was good enough for her but that of the Polos. They seized the occasion, made the journey back by sea from the great port of 'Zayton',[1] and though they found when they reached Persia that the Khan for whom the princess was being brought had died in the meanwhile, they left her (apparently to everybody's satisfaction) with his younger and no doubt more attractive successor, continued their journey to Trebizond, and sailed thence to Constantinople, Negropont, and Venice.

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[1] They were thus following a frequented trade-route (see p. 81 above).

During the years when the Polos were in the East, Marco had unrivalled opportunities for observation. He learnt the Tatar language. He was sent more than once on embassies by Kublai, who was much attracted by his readiness to relate what had come his way in distant parts of the world. What he can tell us of the East he learnt largely as the result of personal experience, though he also seems to have taken some of it out of contemporary Chinese guide-books which he could not always interpret accurately.

The Polos looked at the East through the eyes of merchants, and it was chiefly eastern commerce that interested them. They give us some incidental information about the organization of the empire over which Kublai Khan ruled and which made this commerce possible. It stretched from the borders of Russia in the north-west to China in the far east and India and the Spice Islands in the south. The successors of the Mongols ruled as 'Moguls' in India until the days of Clive. This vast extent of territory, embracing the great proportion of the whole Eurasian land-mass, except for the relatively small Mediterranean, Baltic, and North Sea regions, was not a closely knit whole. Most of it was not under the direct control of the Great Khan, but ruled by Khans who acted as his viceroys and acknowledged his supremacy; many of these were of the royal blood, descendants of Jenghiz. The two elder Polos, on their first voyage, had set out originally only for the court of one of these lesser Khans, the ruler of southern Russia.

China was a recent addition to the Tatar empire, having been conquered by Kublai himself. We get the impression that communications within its borders were surprisingly well organized. Along all the great roads there were placed depots for supplying post-horses, each depot providing, besides numerous relays of horses, lodging suitable for the most distinguished traveller and, if necessary, for the Great Khan himself. The service was so rapid that the Great Khan would often hear news in two days from places reckoned ten days' journey distant. On a matter of great importance, it is said that couriers would travel as much as 250 miles in the course of a day.

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[1] Probably the modern Chiian-Chau.

The revenues were partly raised by direct taxes, but an important item was the customs dues. In speaking of the largest port, which he calls Zayton, Marco Polo compares it with Alexandria, and remarking that the traffic of the eastern port is very much greater, he tells us incidentally that every ship entering the harbour paid in customs dues at least 10 per cent. on its cargo, while cargoes of spices and precious stones were liable to a duty of 30 per cent., and of pepper as much as 44 per cent.

The expenses of administration were no doubt met also out of the issue of paper money. Marco Polo was most interested in this device. The practice of the Khan seems to have been to insist on the use of paper as currency and to offer to take gold and silver in exchange for it; the gold and silver was then used in parts of the world where paper was not current.

To the eyes of Marco Polo the riches of the East appeared fabulously great. All those commodities which in the West were most precious were easily obtainable in China. 'About a thousand cartloads' of silk left Peking every day. We are told of precious stones, of musk, cloves, ginger, cassia, camphor, cotton, and sugar; of cloves, cinnamon, and paper from the Spice Islands, and of porcelain manufactured so extensively that 'for a Venetian groat you may purchase eight porcelain cups'. We get the impression that in China, at least, there was an 'aristocracy of commerce'. Marco Polo saw that the basis of this prosperity was partly the cheapness of labour, resulting in a low standard of living among the workers, and partly the security which good government afforded. Apart from the Mongol invasion, the interests of China had been and were to be for many years purely commercial, and she went on amassing money without expending her energies on fighting. There is, indeed, no doubt that the Far East was at this time the busiest part of the world. Its manufactures of rich brocaded silks and of porcelain supplied the known world with its most valued treasures. Its commercial traffic, both by sea and land, was very large. There is preserved in the works of Marco Polo an account (possibly not written originally by the great traveller himself) of the ships which sailed on the Indian trade-routes. Many of these were of considerable size, having three and even four masts. The larger ships, besides having sometimes as many as sixty small cabins, had a number of bulkheads or water-tight compartments in the hold, so that if a leak sprang in one of these the ship was not in danger of sinking. The crews of the largest vessels amounted to three hundred men, and they carried from five to six thousand baskets of pepper. Their voyages were leisurely, if we are to judge from the three years which the Polos spent on their return voyage from Zayton, by way of Sumatra and Ceylon, to Ormuz. All long voyages, indeed, must have necessitated long waits, such as the delay of five months enforced on the Polos in Sumatra, where they waited for the monsoon.

Apart from this ocean traffic, Marco Polo's account gives the impression of extensive coastal trade between the various ports of India, and between India and Mesopotamia and Arabia. Nearly all the towns which he mentions had a flourishing export trade; from India came chiefly pearls and other precious stones, though here, too, the trade in spices was valuable. In the Polos' day the Middle and the Far East was the great commercial region of the world, in contrast with which the economy of Europe as a whole was relatively primitive.

The security which Tatar domination of Central Asia established revived to some extent the prosperity of Persia. The Polos, as we have seen, made their second journey east by way of Persia. One of the lesser Khans had his capital at Samarkand; of which we are told that it contained skilled artisans from all quarters of the world, metal-workers from Damascus, manufacturers of bows, and manufacturers of glass and earthenware, merchants dealing in wares from the East, musk, precious stones, and rhubarb from China, and merchants dealing in linen and furs from Russia and Tartary and in the spices of India.

Marco Polo's journey to the East was the beginning of direct contact between the Far East and Europe—with the exception of the Roman embassy of the time of Marcus Aurelius recorded above. Within a hundred years of Marco's journey, not only had an Italian banker written a 'Handbook to eastern trade', but there was a colony of Genoese merchants settled in the port of Zayton. It is even recorded that an Armenian lady, possibly with more enterprise than judgement, had built a cathedral there, and there was an Italian bishop of the See, while one of the original missionaries had built a cathedral (with a peal of bells) in Peking, and had been made archbishop of China by the Pope in recognition of this achievement.

If a single event had to be chosen which marked the beginning of modern times, the Polos' journey to the Far East would have a strong claim for the honour. When Columbus sailed to find the western route to China, scores of his countrymen had already visited China, and knew of Japan. He had a tolerable idea of the general configuration of the coast he hoped to find; for the Polos had lifted the veil which had hitherto, for a thousand years, concealed from Europeans the source of goods which they nevertheless regularly bought and sold. At a stroke this had defined and clarified European knowledge of the world, and had showed that Venice, Alexandria, and Constantinople were not the only commercial centres in existence.

It seemed possible to the authorities of the Roman

Church to conceive of a fusion between East and West. The Tatar empire was only a late convert to Mohammedanism. Throughout its territories there were colonies of Nestorian Christians, there were monasteries of the famous orders as far east as Central Asia, and there was at one time a chain of Christian bishoprics from Jerusalem to Peking. But with the decay of Tatar power and the collapse of the 'Pax Tatarica' (the Mongol dynasty was driven out by the native Ming dynasty in China in 1368) the difficulty of communication over great distances by land was enormously increased; and then the voyages of Columbus and of Vasco da Gama suddenly turned the Mediterranean world inside out. It was the western ports that were the starting-points for the voyage to America or to India and China. No other factor was as powerful as this in shifting the focus of European commercial prosperity from the Near East and Italy to the countries of western Europe.

IV. WESTERN EUROPE AFTER THE CRUSADES

The period which lies between the Crusades and the Reformation is that during which the commercial organization of western Europe begins to assume some modern characteristics. The outburst of individualism which found expression in the Renaissance and Reformation was preceded by the development of economic individualism, and certainly in Italy this was to a large extent the condition of renaissance culture. What was happening in England in later medieval times gives very little idea of the commercial, industrial, and financial activities of the age in Lombardy and in Flanders. North Italy in 1450 was almost as different from England of that time as is New York from the Middle West or London from the sheep-farming districts of the Argentine. The huge fortunes made in the Italian cities are in themselves some indication of the scale on which commercial and financial operations were being carried through. The first Medici 'paid for charities, public buildings, and taxes from 1434 to 1471 no less than 633,755 gold florins'[1]—a sum equivalent in gold to nearly £2 millions, and representing in actual value very much more. Both in Lombardy, and even more in Flanders, capitalist production (with its symptom of industrial unrest) was reviving, particularly in the textile industries. Textiles can be transported relatively easily even under such conditions as prevailed in late medieval times, so that it was possible for the cloths manufactured from English and Spanish merino wools both in Lombardy and Flanders to be marketed over a wide area, from France and Scandinavia to Persia and even farther east.

It is true, of course, that the period is one of great intellectual, as well as of great commercial, development. The introduction into Europe of the secret of paper-manufacture (which preceded the invention of printing in Europe by more than two hundred years) cheapened books enormously, and the extraordinary increase in university education in the thirteenth, fourteenth, and fifteenth centuries is an index of remarkable intellectual movement. But the interests of the medieval student were primarily theological, until the spread of commerce and of material prosperity gave them a more secular stamp. It was this which ultimately led to the break-down of medieval civilization and the coming of the modern age—which, whatever its merits may be, cannot as yet claim to be a civilization in the medieval sense, but is rather still an anarchy. Whatever the attitude of the Church and of society as a whole (which in the early Middle Ages was virtually the same thing) towards commerce might be, the fact was that a steadily increasing element in the population was coming to depend on commerce for its living, and was finding credit, which was condemned by the Church as usury, indispensable to its operations. This was already true decades before the action of Luther fanned into flame religious discontent which had long been smouldering. The old attitude had proved unpractical, and it was impossible for the Church to refuse to come to terms with Mammon.

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[1] Burkhardt, *Renaissance in Italy*, p. 100.

She was bound to be on the side of the bankers, for she was already in their pockets. When Tetzel made his notorious journey for the sale of indulgences, he was accompanied by the representative of a famous German banking firm, the Fuggers, which had recently done a substantial service to the new archbishop of Mainz. He was to take for his firm a definite proportion of the profits which the journey realized. And this is no mere isolated incident. It was not merely because they studied classical models that the painters and poets of the Renaissance painted or wrote about the world and the flesh. It was because the world and the flesh were assuming in their day an overwhelming importance, because the spiritual framework of society was being replaced by a material framework; and there was nothing for it except for the world and the flesh to cut loose from the third partner of the triad, the devil, and become respectable. This was what ultimately happened in the Renaissance and Reformation.

We have seen that the two great centres of commercial activity in later medieval times were Lombardy and Flanders. The second of these regions steadily increased its commercial power. Though by the age of the Tudors England manufactured a great deal of wool that had been in former times manufactured in Bruges and other cities in Flanders, the prosperity of the country grew in spite of this loss. Antwerp, with its greater maritime facilities, was replacing Bruges as the commercial capital of the region and it did not suffer, as did Bruges, from growing English competition in the textile industry. Antwerp was the port of a rich district which manufactured woollen goods and tapestries, and contained the great ironworks which by the end of the fifteenth century had already begun to produce cannon, and Antwerp was furthermore the financial centre of the world. Credit transactions were made by bills on Antwerp firms. The big Lombard banking houses found it essential to maintain branches there. Towards the end of the sixteenth century the international market for copper moved from Venice to Antwerp.

Antwerp was the main west European depot for the Hanseatic merchants who sold Scandinavian and Russian produce, as it was also for the cargoes of the Venetian 'Flanders Galleys'. It was uniquely situated to command the commerce of the North Sea, and its rise to importance is an indication, incidentally, that before the opening of the age of the great ocean-voyages commercial seamanship had already made considerable progress. The mastery of nature began with increasingly competent seamanship and with an attempt at the scientific charting of waters regularly sailed.

Antwerp was the main depot, then, of that new commercial area of which the North Sea, the Baltic, and the rivers which flowed into them were the highways. But conditions on those waters were still disturbed. In the Baltic, in the North Sea, and in the Channel piracy was still rife in later medieval times. Chaucer's pilot (Chaucer died in 1400) 'took no keep of nyce conscience' and had often stolen wine from the quays of Bordeaux, while his merchant would have been prepared to pay any sum to see the North Sea 'betwixte Middleburgh and Orwelle' free of pirates. The Hanseatic League, the growth of which is an outstanding feature of commercial history during this period, in its origin marks the effort of the Baltic cities to combine for two objects—the first to combat piracy and the second to resist the power of princes whose exactions might be considered, and often were, excessive. Its success is significant of a new order of things, of an age when foreign commerce had to be carried on (if it was to be carried on at all) by large organizations commanding far greater resources than those of individuals: by companies like the Merchant Adventurers or, later, the British and the Dutch East India Companies, which were all of them powerful enough to secure virtual monopolies in their particular lines. The reasons for the ultimate decline of the League were partly geographical, partly that it clung tenaciously to some of its medieval characteristics and could not face such close consolidation as in the seventeenth century was necessary for success.

Gotland was the earliest centre of this Baltic League, and it was certainly a populous city as early as the eleventh century, though the great part of its magnificent ruins date from the period just before the sack of Visby (1361). From early times the Baltic fisheries played an important part in the commerce of the North German merchants—Easterlings, as they were called in England. Until the Reformation fish was in great demand for fast days when the eating of meat was not permissible, and herrings cured in the Baltic fishing-ports were sent all over northern Europe. It has been frequently pointed out that the change which occurred about 1425, when the herring which had hitherto spawned in the Baltic took to spawning in the North Sea, deeply affected the history of North Germany and Holland. In addition to fish the Easterlings dealt also in the commodities of Russia which reached them through their depot at Novgorod—furs, skins, wax, tallow, timber, and pitch. They brought Scandinavian metal, including iron and copper, to the North Sea area, and much of the silver of Hungary, the output of which was increasing during later medieval times, reached western Europe through the agency of Easterling merchants. In a curious but valuable account preserved in Hakluyt's *Voyages* of the articles of commerce of various countries, bacon and beer are mentioned as being sold in Flanders by the merchants of 'Pruse, and High Dutchmen, and Easterlings', who took back in return English cloth, and salt which was 'needful withouten nay' (no doubt partly for curing the fish and bacon); while as early as the Charter of 1282 Hanseatic merchants are mentioned as selling grain in London. Some oriental produce reached western Europe through this source by way of the Black Sea, Russia, and the Baltic, and even in the seventeenth century goods from Persia were reaching England through Russia, by way, if not of the Baltic, certainly of the White Sea.

The League of cities was a natural growth, the object of which was the protection of its members. United, the League might well expect to obtain a more privileged position in foreign countries, might protect its shipping from cities which ill-treated its members. An association of north German cities with its head-quarters at Visby and with a membership including towns as far apart as Cologne and Reval secured in 1229 certain privileges in Novgorod, and this was the beginning of the Hanseatic depot there which maintained a monopoly until as a result of Lombardic competition in Russia its monopoly was destroyed by Ivan the Terrible, about 1500. At the height of its power the League was reckoned as one of the foremost powers of Europe, and the action of Valdemar of Denmark in destroying Visby (1361) brought a hornets' nest about his ears; he was compelled by the peace of Stralsund to cede the control of the Sound between Denmark and Sweden into the hands of the League, which was thus able completely to close the Baltic to the ships of cities which were not members.

During the generation 1350–80 the League numbered among its members all the important commercial cities of the Baltic. It had depots (Kontors) in England (the Steelyard in London), Flanders, Russia, and Italy, and several of the more important south German cities. Augsburg and Nürnberg were closely affiliated to it, if not actually members. Through its depots passed all goods bought and sold by members in the country concerned, and its own courts, with the right of appeal to Lübeck, were established in most of them. The duties of membership were rigorously exacted, and where towns which were members traded with cities against which its ban was in force, they met with stern treatment at its hands. In 1356 Bremen suffered expulsion from the League for trading with the Low Countries at a time when a League boycott was being maintained, and the punishment temporarily ruined her. Whenever, as in England, the export of a great proportion of the produce or manufactures of a country were virtually in its hands, a boycott by it might mean very serious loss. England was in a particularly vulnerable position with reference to the League, and as a result, its influence was fully maintained in King's Lynn and in

London some time after that influence had begun to decline on the continent. The English merchant navy (there was no royal navy, and when Henry V built one he had to sell it to pay his debts) in the fourteenth and fifteenth centuries was small and inefficient, and when Hanseatic ships resorted to violence to drive competitors from the seas, English shipping suffered. Similar piratical methods were employed against the Hanseats whenever they offered a reasonable chance of success.

The Hanseatic League was modern in character, not because of its monopolistic tendency—monopoly was a feature of any medieval guild—but because its control was exercised for purely commercial reasons. It had been the medieval practice to establish a staple in all important commodities, that is, a market through which the supply was compelled to pass. It could thus be controlled for the benefit of the consumer, and each merchant could be certain that he was buying and selling in the same market as his competitors, while the authorities (in England the king) could be sure of customs dues being paid.[1] The institution is typically medieval, and it is significant that towards the time of the Reformation its maintenance became increasingly difficult, and at last virtually impossible. The Hanseatic League differs from other medieval commercial organizations in that almost from the first it ignored the doctrine of the 'just price' and directed its energies to securing the maximum of profit to all its members.

But the League was not the only symptom of change. Old institutions were being adapted to new ends. The merchant guilds were, by the end of the fifteenth century, becoming rings, the object of which was to secure that the consumer should pay as large a price as could be extorted from him. The system of production, even in England, was changing.

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[1] The wool-staple was also used by the king as an instrument of foreign policy. When the staple was on the continent, as it generally was, its possession was of great value to the city and the region in which it was situated.

Capitalist industrial organization, like that which was developing in Venice or Flanders, might have developed in England also, and indeed in some districts it began to do so, but the potential owners of factories were deterred by the difficulties which the now obsolete guilds put in their way. Instead, therefore, the domestic system was coming into being, and English cloth exported in such great quantities in the sixteenth, seventeenth, and eighteenth centuries was produced not in factories but in cottages, the inhabitants of which owned their own plant, whether it was spinning-wheel or loom, but were supplied by merchants' agents with their raw material which was collected from them when manufactured or which they themselves sold in the nearest market. In other respects, too, England had assumed by 1550 very much the same appearance commercially as she had in 1750. With certain exceptions[1] the same towns were important, and for the same reason, and there was the same line of small but flourishing ports all round her coasts; cities which, like King's Lynn, were to be virtually ruined by the industrial revolution, in 1750 still retained very much the same position in the economy of the country which had been theirs two or three hundred years before.

It is scarcely surprising that the huge commercial developments of the fifteenth century caused the fabric of Christendom to crack from top to bottom. The gradual acceptance of the view that it was natural for the merchant to work for what profits he could get, rather than to regard himself as purely the servant of society, meant the denial of the old conception of rights and duties, and was the antithesis of the 'other-worldliness' of the Middle Ages. It was only natural that the reformers should accept the new society as they found it, and should base their theories on the new order; and the fact that the Church had already come to a half-hearted compromise with the new order and that many of its members had become, in the process, corrupt, only made it an easier mark for the reformers' attack. The result was that a completely new standard of conduct began to be accepted as right, a standard based on commercial rather than on spiritual rectitude. To most of the reformers, honesty, thrift, industry, and sobriety became cardinal virtues, and piety, humility, and generosity to the beggar were at best qualities of secondary importance, at worst positive dangers to society.[1]

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[1] Liverpool (made by the slave trade) is an example.

It is sometimes said that the reformers were hand in glove with the new capitalist classes, and that they owed their success to the circumstance that they were apologists for the new system of exploitation. This is a distortion. Luther himself regarded usury with an abhorrence which was medieval; and no medieval control was more rigorous than that exercised by Calvin over the mercantile classes in Geneva in the third quarter of the sixteenth century. But Luther, though he might believe that the usurer was committing mortal sin, believed, nevertheless, that he should be left to the mercies of his own conscience. 'The preacher shall preach only the Gospel rule,' he said, 'and leave it to each man to follow his own conscience. Let him who can receive it, receive it; he cannot be compelled thereto further than the Gospel leads willing hearts whom the spirit of God urges forward.'[2] The thin end of the wedge was soon to be driven deeper home. There were many, and their number was increasing, whose individual consciences failed to function where trade was concerned, and these were quite ready to be referred to their own consciences as standard. That separation of religion from everyday life which, with some notable reactions, was to be characteristic of the coming centuries, had begun.

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[1] By a somewhat similar, though less drastic revolution of thought, it has come to be assumed since the nineteenth century that 'Cleanliness comes next to Godliness'.

[2] Quoted by Tawney, *Religion and the Rise of Capitalism*, p. 100. This whole section is greatly indebted to this brilliant work.

BOOK II

SIXTEENTH TO EIGHTEENTH CENTURIES

IV

THE NEW WORLD

THE capture of Constantinople in 1453 could not stop entirely the trade between Europe and the East: Constantinople is not the only way into Europe from the Middle East. Much of the commerce from India and the Far East had always passed through Alexandria, and moreover, even after Constantinople had fallen it was not entirely closed to the west. Five days after its capture the Sultan gave his authority for the continuance of the privileges which the Genoese had hitherto enjoyed. For many years both Genoa and Venice continued to prosper from Levantine commerce, and in 1492 the empire of Venice, so far from having disintegrated, was at its height. Yet the fall of Constantinople was of vast significance. It marked the break-up of the old order. The Near East had been the shrine of the beliefs and hopes of western Europe ever since the rise of Christianity. The recapture of Jerusalem had been the aim of succeeding generations in every western country. Thenceforward, except from the minds of very few, that aim disappeared. In Constantinople had glowed the embers of a civilization which had been lit before Christianity had begun. Constantinople had been a symbol of permanence. Its streets and its racecourse had been decorated with the work of the great Greek sculptors. Within its palaces had been hoarded the wealth of the western world, and it stood in the medieval mind not only as the gateway to Jerusalem, but the gateway to earthly prosperity. Then at last it fell under the domination of a foreign religion and an Asiatic military power. Its scholars deserted it, some of them becoming, incidentally, teachers of the Greek language in the universities of western Europe, and it became, except for the depots of the traders, an alien and infidel city. Men had hardly yet lost the habit of thinking in terms of Christendom, and of Christendom the new Constantinople was not a part. Moreover, its fall was only one phase of a series of disturbances which had shaken the whole of Asia. There was no longer a single power ruling from China to the Balkans and Russia, and the chaos which followed the decay of the Tatar power made extensive commerce impossible. It was no longer possible to get jewels from the Far East through the Black Sea ports, nor caravans of spices or porcelain through Persia and Mesopotamia. Only the Red Sea route, which passed through Alexandria, where all merchandise was heavily taxed in transit, was now open to the trade from India, China, and the Spice Islands. There was a growing resentment in western Europe that the richest trade in the world should be regulated and taxed by Mohammedan powers, and Venice herself came in for a very large share of jealousy, for she acquiesced in and profited exceedingly by the situation. This discontent and jealousy stimulated exploration of the ocean routes, the objective of which was to secure such profits for other powers.

The break-up of the Tatar empire had gradually brought to an end the direct contact between east and west, begun in the days of the Polos, and though most people had heard of the countries of the Far East, in the reports brought back from them legend and reality were inextricably mingled. Nothing was known of Africa except the Mediterranean region, and nothing of America. It was not possible to determine definitely the size or the shape of the world. Theorists had confidently believed, even in antiquity, in the possibility of reaching Asia by the western ocean. Ptolemy, whose work was translated from Greek into Latin early in the fifteenth century and so became accessible, had not only realized that the world was round, but had elaborated a map projection on that assumption, and had given currency to a conception of the size of the world which was, relatively speaking, not so far wrong.[1] Yet theories are different from knowledge, and 'it was through faith' that Columbus sailed westwards in a small ship over an uncharted ocean in the conviction that he would reach the East. That the world was round was an article of his faith. Yet he might have been wrong in it as easily as he was wrong in his conviction that he had reached Asia when he touched Cuba. He might have sailed over the edge of the world. The Sargasso Sea might have been the boundary of the Atlantic, and have stretched on endlessly to the stars. Columbus was convinced that it did not, and sailed, knowing that he would reach the East beyond it.

At the beginning of the fifteenth century knowledge of Africa beyond the equator was almost as vague as was knowledge of America before Columbus. There were still geographers who believed the theory put forward by Romano-Greek writers, that in the far south the land-mass of Africa stretched out eastwards to meet somewhere the farthest extremity of Asia, and both this and the other theory, that Africa was surrounded by ocean, were founded on the works of Greek or Roman geographers of the first and second centuries A.D. Ptolemy's map included only the northern hemisphere, and the belief which most Romans had held that though the southern hemisphere might be habitable, contact with it could never be established owing to the fierce heat of the torrid zone, was certainly still held by some in medieval times.[2]

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[1] See above, map facing p. 34.

[2] For an example of the contrary belief, however, cf. the following passage in the Travels of Sir John Mandeville: '. . . men may well perceive that the land and sea be of round shape and form; for the part of the firmament showeth in one country that showeth not in another country. And men may well prove by experience and subtle compassment of wit, that if a man found passages by ships that would go to search the world, men might go by ship all about the world, and above and beneath.' The writer is talking of Sumatra, which he correctly places in the southern hemisphere. Whoever he was, his work was written in the mid-fourteenth century, and no doubt by that time it was known to many that the southern hemisphere was accessible.

The new desire for knowledge of the physical world which marked the end of the Middle Ages is seen at its best in the work of Prince Henry of Portugal, 'the Navigator'. Born in 1394, he belonged to the generation which for the first time began to feel that the end of the world (a catastrophe regarded as more or less imminent ever since the foundation of the early Church) was after all not so immediate a proposition; a generation which began vigorously to reconsider the relations of man, not to the other world, but to the world about him. The instruments at his disposal were very crude. Contact with the Far East had made familiar the use of the magnetic compass, but methods of finding position were imperfect, and since only latitude could be determined with any certainty, a ship had to sail first to the line of latitude, and then due east or west, as might be. The ships for ocean voyages would hardly be considered sea-worthy for coastal traffic nowadays. The *Nina*, on which Columbus returned from his great voyage, was only 40 tons displacement, and was not decked over for the complete length of the ship.

Henry the Navigator rightly saw that a great blow would be struck at Mohammedan power if the main source of its wealth were destroyed by the opening of a new route to the East, a route to be operated throughout by western shipping. No doubt the fabulous riches of the trade in spices had something of the same glamour for him as it seems to have had for all his contemporaries. He was convinced that the route round Africa was feasible and he tried to collect information which would make such a voyage possible, so he kept in touch with the geographers and the mariners of his day, and built an observatory to develop astronomical research in the interests of discovery.

He can scarcely have realized the magnitude of the task that lay before his seamen, but his lavish assistance and patronage made possible the first voyages southwards. It was not possible to go on financing expeditions whose results were purely scientific; the early discovery of the islands West of Africa attracted colonization, while slaves began to be obtained in large numbers from coastal raids, so that the trade in slaves, which had after the thirteenth century begun to fail, from 1441 became again an important feature of European, and especially of Atlantic, commerce. Moreover, reports were brought by the caravans from the desert, in due course substantiated by the experience of seamen, of a district to the south rich in gold and ivory. For a long time the difficulties of Cape Bodajor were considered insuperable. When they were overcome, and the eastern trend of the African coast was discovered, the route to India seemed to be within reach. In 1471 an expedition was fitted out to traverse it. One of its members was a seaman, thirty-five years old, known as a maker of charts, whose name in its Latin form was Christopher Columbus. The expedition rounded the point of Africa and sailed east for a thousand miles. Then it was discovered that the coast turned again southward and ran on apparently limitlessly. The expedition crossed the equator, but ultimately turned back, having convinced one man at least that the future of the Indian trade lay not to the South but to the West. Columbus still believed that the voyage round Africa was possible, but, as he wrote to a map-maker in Venice, the voyage to Asia across the Atlantic was now not only probable but certain. His heart was fixed on attempting the voyage himself, in the hopes, apparently, that he might be able to found a principality for himself in one of the Spice Islands, and amass fortune and power.

Actually it was over twenty years before the voyage was undertaken, and Columbus was already well on in middle age before he set out to discover the ocean route to China. Meanwhile he had studied the works of Marco Polo, and the copy which belonged to him, scribbled with his notes, still exists. In the intervening period the Cape of Good Hope had been rounded. In 1486 Bartholomew Diaz, sailing down the west coast of Africa, had been caught in a storm and driven before a north-east gale for thirteen days. When he could, he turned eastward, expecting to find the African coast.

Instead, only the open ocean stretched eastward before him. He turned north, therefore, and struck the coast east of the Cape of Good Hope, and after sailing on for some days north-east, he became convinced—and rightly—that the route to India was at last open. Columbus's brother had been on this expedition. He, too, realized that the route to India had at last been discovered, but like Columbus himself, he was impatient of its length. They studied the works of the Venetian map-makers, with one of whom Columbus corresponded in some detail on the subject, and concluded that Polo's 'Cipango' or 'Japan' which they thought lay out in the Ocean of China, was in the latitude of the Canaries, about 1,500 miles to the west. This view was based mainly on the work of Ptolemy, the Latin translation of which had already been printed several times by the time Columbus sailed in 1492. The actual calculation was not Ptolemy's, but that of another ancient geographer, Marinus of Tyre, who had reckoned the size of the globe even smaller than Ptolemy (whose estimate had itself been small) reckoned it.

Columbus was a superb navigator, but he was obstinate and ambitious and had to wait at the Spanish court for years until his own extravagant conditions were granted. He demanded that he should be made viceroy of all the new lands he discovered, that a tithe of their produce should be his, and that his rank should pass to his heirs in perpetuity.

Like so many others of the great seamen of his day, Columbus was by birth Italian. Venice and Genoa were great schools of seamanship. Many of his schemes he seems to have owed to a Venetian geographer of his day, of whose help characteristically he says nothing. He took his plans first to the King of Portugal, and demanded that on his own conditions an expedition should be fitted out. The king refused, but when Columbus was dismissed, he called one of his navigators and directed him to execute them. The voyage was a complete failure. The expedition returned after a few days at sea with sensational accounts of the perils which had forced it to turn back.

Columbus turned to Spain, and at long last he was granted what he wanted. The charge of equipping the expedition was imposed on Palos, one of the seaport towns of Spain. Volunteers were not forthcoming in adequate numbers, and finally the fleet was largely manned by prisoners released from Palos jail. There were three ships, the *Santa Maria*, the *Pinta*, and the *Nina*. The flagship *Santa Maria* was the only one of the three which was decked over all. She was ninety feet long by twenty broad. From the start the crew were mutinous.

Early in the morning of 4 August 1492 the expedition sailed. When it was a few days out of harbour the *Pinta's* rudder was damaged, apparently by treachery, and the expedition put in to the Canaries to refit. There it was greeted by a terrifying eruption of the volcano of Teneriffe. When they left Teneriffe, for three days there was hardly a breath of wind; for those three days land was still in sight. When it disappeared over the horizon at last, horror of the open sea began to grow on the minds of the three crews. To allay their fears Columbus kept two log-books. In his own he entered the true distances travelled. In the public log-book he made extensive omissions that the length of the voyage might not seem too great. When they were fifteen days out, the compass apparently failed them. The needle swung to the east of the Pole star. They had crossed the line of 'no variation'. Columbus explained it away, but he did not understand it himself and was distinctly uneasy. When by all calculations Japan should have been already reached, a conference was held. It was agreed to change the course to the south-west, in case they were passing north of the expected island. It was a critical moment. As we read in the account for which he is himself probably mainly responsible:

> 'The men lost all patience, and complained of the length of the voyage, but the Admiral encouraged them in the best way he could, representing the profits they were about to make, and adding that it was to no purpose to complain. Having come so

far they had nothing to do but continue on to the Indies till, with the help of Our Lord, they should arrive there.'

The next day unmistakable signs of land began to appear. Some one saw a branch with berries on it. Some one saw a stick, curiously carved, as with a metal implement. The weather freshened. On the evening of 10 October Columbus, who throughout the voyage hardly slept, was on deck watching when he fancied he saw the flicker of a light.

'He called Piedro Gutierrez, groom of the King's wardrobe, told him he saw a light and bade him look that way, which he did, and saw it. He did the same to Rodrigo Sanchez, but he was unable to see it. The Admiral again perceived it once or twice, appearing like the light of a wax candle moving up and down, which some thought an indication of land. The Admiral directed them to keep a strict watch upon the forecastle, and look out diligently for land, and to him who should first discover it he promised a silken jacket, besides the reward which the King and Queen had promised.'

At two o'clock in the morning land was discovered at two leagues distant. They took in sail and remained under the square sail, lying to till day, which was Friday.

'The admiral put on his armour and over it a cloak of scarlet. He was rowed to shore. The royal banners of Aragon and Castile were unfurled. As soon as the Admiral came to shore, he fell on his knees, and weeping abundant tears of joy, he began to say Te Deum laudamus, Te Deum confitemur.'

The account which Columbus wrote, at the time, for the King and Queen of Spain reads like a vision of paradise. 'I never beheld such a beautiful place, with trees bordering upon the river, handsome, green, and different from ours, having fruits and flowers each one according to its nature.' At the same time he was beginning to be bewildered. Everywhere he touched he asked the natives where was Cipango. He had an interpreter on board 'who had been a Jew, knowing Hebrew, Chaldee, and even some Arabic', and they managed to persuade themselves that when the natives talked of Cuba, they meant Cipango. He heard of a narrow place by which he could reach the other sea, and he thought it must be the Strait of Malacca. His mind refused even to conceive that he might have failed to reach the Indies.

This attitude was for some ten years shared by the whole of Spain. Columbus's object had been to open up a new trade-route to the East, and to found there an empire for the King of Spain, with himself as viceroy. His diary speaks of waiting to see whether his cargo for the return voyage is gold or spices before determining his future course. The day after the discovery, Saturday, 13 October 1492, he writes:

> 'I was attentive and took trouble to ascertain if there was gold. I saw that some of them (the Caribs) had a small piece fastened in a hole in the nose, and by signs I was able to make out that to the south, or going from this island to the south, there was a king who possessed a great quantity.'

Like Columbus, Spanish colonists of the next generation expected to pick up nuggets of gold on the beach and find spices growing in quantities on the sea-shore. They were ready to fight. They were not ready to work. A brilliant Englishman once said that America has been discovered many times, but every time the discovery has been hushed up. It is certainly true to say that America was discovered twice, the first time by the Spaniards, who found the gold-mines of Mexico and Peru, the second time by Captain John Smith, and later the Pilgrim Fathers, who discovered the opportunities which undeveloped America offered.

Columbus was received in Palos, 225 days after he had set out, with delirious enthusiasm, and was at once summoned to Court. It was assumed on all sides that he had opened a new route to the Indies and China. That he had stumbled on a new world no one, least of all Columbus himself, imagined. Greedy as he was of fame, he had no conception of the historical significance which his voyage would have. His work was, however, comparatively speaking, neglected outside Spain. It did indeed suggest Cabot's voyage from Bristol in 1497; but Cabot was by birth a fellow countryman of

Columbus. Only in the Peninsula did the discovery create real excitement. Half Spain was eager to accompany Columbus on his return voyage. In September 1493 he sailed at the head of an expedition of seventeen ships. After less than six weeks at sea they made landfall in Dominica. They sailed about the West Indian Archipelago for some months, locating native gold-mines in one of the islands. It was a poor return for the hopes with which the expedition set out, and he came home discredited. Yet his conviction that the route was there remained unwavering, and he succeeded in persuading the Court to finance a third voyage. This was dogged by every kind of misfortune. He reconnoitred the coast of the mainland of the Gulf of Mexico, then tried and failed to allay the discontent which had arisen in the settlement made on the second expedition. The colonists appealed to the King of Spain, and the commissioner sent out by him took their part against the viceroy. In 1500 Columbus was brought back to Spain, in chains. That very summer Vasco da Gama had returned from the Indies. He had rounded the Cape of Good Hope, and had captured on the east coast of Africa an Arab trading-vessel, which provided him with a pilot. He had reached India, and after several treacherous attempts had been made by the Arabs, who realized how serious a blow to their prosperity Vasco da Gama's voyage might prove, to influence the King of Calicut against him, he succeeded in loading his ship with merchandise, and returning by the way he had come. His voyage realized large profits for those who had financed it. The news of its success must have been a severe disappointment to Columbus. His own achievement was put into the shade by a commercial success. He, too, had been grasping at commercial success, and had failed.

And so, after the first outburst of enthusiasm died down, the West Indies passed for the time out of the picture. Popular interest was concentrated on the eastern trade opened by Vasco da Gama, the control of which had fallen to Portugal, under whose flag da Gama had sailed. Yet the discovery made by Columbus brought with it the necessity for a reconsideration of world power, even if the potential value of the discovery was not understood. Portuguese interests were in the East, and she already controlled the Canaries and the Azores. Spanish interests were to the West. After some discussion the Pope, to whom the matter was referred, decided that all land to be discovered west of a line drawn north and south, 250 leagues west of the Azores, should be considered Spanish, and all east of that line Portuguese. The decision was no sooner made than questioned. Spain soon discovered that she had for the time being far the worse of the bargain. Her new western estates brought her no nearer the spice trade, and she looked with envy on the prosperity of Portuguese commerce with the Far East. The determination that at all costs the western route to the Far East must be opened up sent Magellan out on his voyage in 1519.

In some respects this voyage was the first achievement of any seaman of the age. Magellan was not only a magnificent navigator, but was also a superb leader. The account on which we chiefly rely for our knowledge of the voyage, written by one of the eighteen who lived to see it completed, proves that it was only by his massive strength of character and the personal ascendancy which he won over his crews that the undertaking was accomplished. He started out from Spain with five small ships in August 1519, determined somehow to find a new way to the Far East. He believed that as it was possible to sail round the south of Africa, so the probabilities were that it was possible to sail round the south of the land-mass which men were just beginning to call America; and he believed that the coasts of Asia, or, at any rate, of Japan, could not lie far beyond. He felt his way down the eastern coast of South America during the latter half of 1519 and the beginning of 1520. He wintered for five months—May to September—in Patagonia. Like Columbus, he had to face mutiny, and when Drake sailed these waters sixty years later, he saw when he entered one of the eastern harbours of South America gallows still standing where Magellan had hanged mutineers. He found at last the strait which now bears his name, drove through in intense cold and rough weather, and then determined to try the voyage across the open ocean to China. The hardships his men suffered are hardly credible. They failed by an unlucky chance to strike any of the mid-Pacific islands. When finally they caught sight of the islands which later came to be called, after the King of Spain, the Philippines, the death-roll amounted already to over half the total numbers of the expedition. Attempting to replenish supplies, they were treated so badly by the natives that they had to weigh anchor at once, and in the next group of islands which they reached Magellan himself was killed. Magellan had travelled before in the Far East. The interpreters he had brought with him were already understood. He knew when he died that he had done what he had set out to do, and had fixed the extent of the world. After his death one of his ships had to be abandoned from unseaworthiness, while the other remaining ship, laden with cloves, after a terrible voyage round Africa, sailed into Cadiz harbour on 6 September 1522.

In a sense, Magellan had completed what he set out to do. In another sense, the expedition had stultified itself. It had proved that the voyage over the Pacific was in itself a voyage over half the globe. The new route which had been discovered by Spain would not help her to capture the trade of the Far East.

Magellan's voyage implied a knowledge of the continent of America. He knew that Asia lay somewhere beyond, perhaps far beyond, the islands which Columbus had discovered. He knew that south of them there existed a landmass continental in size, south of which some passage had to be found. Incidentally he had told his crews that he had seen that passage charted on a map already produced, though this was nothing more than an invention to keep them in spirit. Columbus had sailed the seas of the Gulf of Mexico, and had explored many of the islands and the north coast of

South America during the ten years after his first voyage. He had noticed the volume of water flowing from the South American estuaries, and had guessed that their watersheds must be no less than continental. By the time he died other Spanish pilots were beginning to realize the lie of the islands. In a map of 1500, Cuba (believed by Columbus to be the mainland of Asia) is marked as an island. One of Columbus's pilots had sailed north-west to Florida and discovered the Bermudas. Before the turn of the century a Portuguese ship, bound for the Far East by way of the Cape of Good Hope, had been blown so far westwards that Brazil had been sighted, and the following year Amerigo Vespucci, who had sailed as pilot in the first expedition which had actually sighted (1497) the mainland of America, was sent by the King of Portugal to explore the new discovery, which it was realized came within the hemisphere awarded by the Pope to the Portuguese. He charted as much of the coast as fell within the Portuguese limit, and grasped the fact that there had been discovered a continent, nothing less than a new world; and then he laid a course south-westwards, hoping to discover further lands which might be claimed for Portugal. He actually sighted South Georgia, after which he set a course for Sierra Leone, and so returned.

Before the death of Columbus, North America had also been visited. It had, indeed, been reached by a Danish pilot, John Scolf, twenty years before Columbus's famous voyage, and it is possible that Breton fishermen knew of the Newfoundland fisheries even before that date. The fame of the discovery has been generally connected with the name of an Italian pilot, John Cabot, Venetian by birth, by legal adoption Genoese, but sailing under the English flag. Cabot had planned as early as 1480 to attempt to find a passage to Asia across the Atlantic—this was in Scolf's mind also—and he had heard of an 'island of Brazil',[1] which lay west of Ireland. He left Bristol in the early summer, reached some part of the North American coast—possibly Labrador—on 24 June, and returned to Bristol after an absence of less than three months. This voyage also caused tremendous enthusiasm, and led to the dispatch of an expedition on the following year to explore what it was assumed was the coast-line of northern Asia. The expedition found the cod-fisheries of Newfoundland, and it is said to have explored '700 leagues' of the coast. The fisheries were soon developed, and a short time later we hear of a fleet of over three hundred vessels of different nationalities visiting them. For the most part, however, the wealth of North America was not obvious enough to prove a swift popular attraction. Business men were thinking in terms of spices or gold. It was over a hundred years before the first colony—and that a failure—was settled in North America.

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[1] Brazil, when it was discovered, got its name because brazil-wood, already known to Europeans, was found there.

These great discoveries were gradually pieced together. Amerigo Vespucci, writing to a famous Italian prince of the Renaissance, spoke of having found 'a new world', and his letter came into the hands of a German scholar who was working on a new edition of one of the Greek geographers. Amerigo had, to his thinking, discovered a fourth continent; 'wherefore,' he writes, 'I do not see what is rightly to hinder us from calling it Amerige or America.' Even so, for a few years men still thought of Columbus's discoveries as 'the Indies' and regarded the new continent, South America, as a great land-mass to the south-east, in no direct relationship with them. It was not till after the time when Balboa looked over the Pacific from the Isthmus of Panama that the discoveries of Columbus, Amerigo, and Cabot began to be grasped as a unity.

In themselves these stories of the seamen of the Renaissance typify the tremendous development which was taking place in the mind of Europe. Europe, like the captains of her merchant ships, was beginning to think in terms of science rather than witchcraft. She was beginning to develop that energy which was to press her civilization, before its impulse was broken, on the ends of the earth. Vigour and practical common sense were beginning to replace asceticism and meekness as the standards of virtue; man was beginning to feel in his fingers the mastery of a world which hitherto since the beginning of time he had been trying to explain or to escape.

With this new spirit there came a shifting of the centre of power. The opening-up of the Cape of Good Hope route to India was a fatal stroke at the power of the Italian Republics. We are told that the report of Vasco da Gama's safe return was received in Venice with consternation. His voyage had, as it were, upset once again the balance of the world. Not only the West Indies but the East Indies also were to be reached thenceforward from the countries of the western European seaboard, Spain, Portugal, and later Holland, England, and France. The old route through Alexandria and the Mohammedan customs houses dwindled into comparative insignificance. Venice lost her commercial advantages and the Mediterranean, instead of being Europe's front door, became Europe's back yard. It had to wait for the construction of the Suez Canal to rehabilitate it. The two great discoveries had created a new European order. The very centre of the world itself had moved. Thus the Iberian peninsula acquired a new European importance. By 1515 the King of Spain was the most powerful of all European monarchs. This was partly owing to the accidents of heredity, for the richest commercial region in Europe, the Low Countries, had passed into the power of Spain, and the Hapsburg dominions were admirably situated to dominate western Europe. Partly it was due also to a unique and recognized position which the new imperial status of Spain won for her. Until the time of the defeat of the Armada, Spain was the most powerful country in the known world.

The acquisition by European countries of overseas empires was a new fact of the first importance. Portugal not only founded trading stations in Africa, such as Mombasa and Zanzibar on the route to India, but acquired Ceylon and several important depots in India itself. Farther east, the exploitation of the Spice Islands had begun, and in most of the naturally rich islands of Malaya, Portugal won a footing, and succeeded in monopolizing their produce. Brazil was also hers, and remained a great potential source of future wealth.

The empire of Spain had failed, during its early years, to fulfil its first promise. Before very long, however, Spaniards began to realize that even if fortunes were not to be made in a month by the discovery of gold, they might be made in a few years by the growing of sugar—a plant introduced by the Spaniards from the Canary Islands. The result was that a system for exploiting native labour was devised, so brutal that in the course of little more than a generation the native element of some of these islands was entirely destroyed. The available supply of native labour was allotted to the colonists proportionally to the size of their estates, and though efforts were made, even during the lifetime of Columbus, to modify the hardships which the system brought, they proved on the whole ineffective. In Spain itself protests against the system were not wanting. Most notable among the champions of the native cause was that splendid Dominican priest, Las Casas, who devoted his life to it. But the Spanish empire beyond the seas had already begun to take the regulation of its own destinies into its own hands. Las Casas produced a famous book which drew the attention of Spain to the atrocities of the conquest and the plight of the native races, and in Europe it was extensively read. A code of laws which was passed aiming at the righting of the abuses which his work had made known, proved almost impossibly difficult to administer. The man on the spot who 'knew the facts' took the law into his own hands, and following his own obvious advantage continued to do much as he pleased. The situation has more than once been repeated.

The difficulties, it is true, were great. If the plantations were not to be run by native slaves, negro slaves must be imported from Africa. When the supply of native labour failed, this African reservoir began to be opened, and from that time until the early nineteenth century there was a steady flow of slaves from West Africa to the West Indies, and later to the south-eastern districts of North America. For this trade many excuses were made, the chief being that thereby the souls of converted negroes were saved from hell. Some did not bother to excuse it. It is significant of the worst side of the new spirit that Europeans should have thought all new territories belonged to them by right, and that all native races were their natural servants.

In 1517, however, the new continent was an unexplored potentiality. Gold in the islands was won only with difficulty. There was still a possibility that the mainland would yield easier results. In 1517 (a quarter of a century after Columbus's voyage) a Spaniard from Cuba in search of slaves landed on the mainland, in Yucatan. He was at once struck by the evidences which he saw everywhere of civilized occupation. The standard of agriculture was much superior to that in the islands. The native garments were more finely woven, architecture was solid in character, buildings being of stone and lime. He brought back news of his discovery to the Governor in Cuba, and brought back enough wrought gold to make the Governor believe that the discovery might be worth following up. Next year an expedition was sent which established beyond doubt that somewhere inland there flourished a civilization far in advance of any of which the conquerors had yet dreamed of finding in the new world, a civilization which for all its barbarism in some matters bore the stamp of refinement and culture in others. The gods of the people of the interior were worshipped with human sacrifice, and their riches were enough to satisfy an adventurer's wildest dreams. It was an obvious opportunity to kill two birds with one stone.

It fell to the lot of Cortes to attempt the entry into Mexico. The expedition which he led is characteristic of the enterprise with which the makers of new Spain set out to fulfil their passion for gold and glory. It had to face a declared enemy, for the rulers of Mexico did not regard the invaders (as white men had been regarded at first) as gods, but as marauders—which was indeed what they were. A conspiracy within the ranks of the expedition came very near success. Cortes, having hanged the ringleaders and pardoned the rest, gave secret orders for the fleet to be sunk. This left him with no communication, except by one small vessel, with the islands; but it meant that there was nothing for the expedition but to do or die. Encountering resistance at almost every halt, the expedition made its way up the mountains among which Mexico, capital of the Aztec empire, lay. The emperor sent embassies trying to persuade Cortes with presents, entreaties, or threats to abandon his march, but he passed on till the city lay before him; canals, aqueducts, bridges, temples, built up in the waters of a mountain lake, far above the semi-tropical swamps of the sea-coast. The Spaniards with their horses—as strange a sight to the Mexicans as had been the horses of Asia Minor to the Cretan merchants in the second millennium before Christ—clattered through the stone-paved ways of the city. Cortes, true to his ruling passion, began the attempt at the conversion of Mexico to Christianity. He then claimed the whole region for the King of Spain, and threw the Aztec monarch into irons. This action did not calm the suspicions of the Mexican people, though the emperor swore allegiance to the crown of Spain. His treasure was divided among the Spaniards, and Christian worship was established in the great pyramidal temples. In a revolt which took place, the Spanish force came within an ace of destruction, but its suppression, in the course of which the city was partly destroyed, made Mexico part of the Spanish empire.

The conquest of Peru was a second conquest of Mexico. The empire of the Incas, as it was called, escaped the tragedy of discovery for another ten years after Cortes's conquest of Mexico. Rumours kept reaching the Spaniards of a rich civilization of the south; but the way to it was barred by tracts of swampy coast. Inspired, however, by the rich rewards of the conquerors of Mexico, a Spaniard named

Pizarro attempted to reach it. At one time he was left with only sixteen followers; but he persevered. 'Doubt not,' he said, 'God will humble the pride of the heathen and bring him to the knowledge of the true faith.' When he got into touch with what he sought, he sent back for reinforcements and crossed the Andes by one of the great roads which the Incas had built. Peru once occupied, the Spaniards invited the Inca and his guards to come to a parley in the great square. Both sides were to be armed. All the buildings surrounding the square were occupied secretly with Spanish troops. The parley began. It consisted of the usual attempt to convert the Inca. He seems to have listened for a time, and then to have become impatient and snatched the Bible which was being read to him, and thrown it to the ground. This was the signal for a general massacre in which five thousand natives are said to have been killed. The Inca himself was taken alive. He was allowed to ransom himself with a room stacked to the ceiling with gold, and then he too was put to death. He was charged with having a number of wives, with having diverted the revenues of his country from the Spaniards, and with ten other offences. There is little doubt that, of the first offence at any rate, he was guilty.

Western Europe was not merely seeking an expansion of trade. Throughout the course of the sixteenth century a steady flow of settlers passed from Spain to the New World. It is estimated that, on an average, about two thousand Spanish colonists settled in the New World every year during that period. This was something different from the exploitation of the islands with which Spanish imperialism had begun. It was the foundation of a New Spain, a new fragment of western Europe, with the traditions of western civilization, but the stimulus of a new land, a new climate, new conditions. Fortunes were there to be made, but those who made them did not return at once to Europe to spend them. Mexico or Peru had become their home. Thus began the great expansive movement of western civilization, which was to continue, with periods of interruption, till it spread half over the globe. Sometimes—especially in the tropical regions—imperial activity has meant nothing more than making the most as quickly as possible of a highly productive area or an acquiescent native population. Sometimes it has meant the founding of a new outlier of western Europe. Most often it has been a mixture of the two.

The movement which might be called the 'Westernization of the world', and which now began, is one of the most important events in the history of the world during the past four hundred years. Its beginning draws attention to a fact too often forgotten—that from the sixteenth century onwards western civilization has been a unit. Within it there are diversities which to its component individuals are important enough, differences of language, of culture, and of race. To the outside observer such differences are relatively unimportant. What is important, and what makes the difference between the character of western and other civilizations is its material comfort and the mechanical or scientific contrivances by which that is attained, and in general the 'scientific attitude' towards the world; plus the individualism which has become part of the western mind, of which socialism, based originally on the conviction of the necessity to secure for the individual worker his rights, is actually only one form. To the outside observer these are the facts which have made western civilization one.

That the conquests of Mexico and Peru had a decisive effect on the history of the time was due in the first instance to the great reserve of gold and silver which was released from their treasuries for the use of Europe. Exchange had been hampered by the lack of gold, and the new supply which was now tapped made possible the supersession of a system of barter. There came, thus, a new vigour into the whole mercantile system of western Europe. By the end of the century the medieval age had passed and the modern had begun; and the change was largely assisted by the resources of gold and of silver which the New World contained.

Spain herself did not benefit as much as did the rest of Europe, for she spent extravagantly on wars in Europe. Her own land was too barren for extensive agriculture, its mineral wealth was small, and its industrial possibilities not very great. There was no productive enterprise at home on which the new wealth might have been expended, except, perhaps, the overseas trade; and from that the interests of Spain were diverted by her zeal in the cause of restoring Roman Catholicism over Europe.

This zeal for the cause of religion was not without its effect on the colonies of Spain. It is easy to see and to condemn its excesses. On the other hand, the work of the Roman Catholic Church, and more particularly the Order of Jesuits (founded about the middle of the century), was of incalculable value to the native races conquered by Spain. It brought a real humanity to their treatment, besides striving for their conversion; and its concern for their spiritual welfare was deeply genuine, and by no means merely the handmaid of commerce. In this respect Spanish imperialism was far in advance of the imperialism of the Dutch in the seventeenth century. Yet the fine qualities of the Jesuits made their work economically unsound. It did not pay; and for this reason it failed to convince the settlers on the spot of its merits. The intentions of the government itself, and of the missionaries, were excellent, but they were largely frustrated by the attitude of the Spanish settlers, who wanted not educated Christians, but cheap labour.

In the fourteenth and the first half of the fifteenth centuries commerce had been regarded on the whole as an evil, and had been fettered with all kinds of regulations. The guilds had originally had nothing in common with the modern commercial company in which merchants or 'capitalists' pool their resources in order to be able to work on a larger scale. They had represented control by the community. But with the new enterprise there grew up new methods of business. Commerce became, to an increasing extent as time went on, an affair of individuals. There grew up great firms connected with the names of single individuals who had sometimes started in the humblest circumstances. Sir Francis Drake himself is a typical English example of the self-made man of the sixteenth century; a man of brilliant enterprise and a born leader, who started his career with scarcely any backing in maritime commerce. The court of Elizabeth was distinguished by the members of the new 'nobility' which frequented it, and which was resented, but perforce also respected, by the families whose titles were more ancient.

Most famous of all the great financial houses in Europe at this time was the house of Fugger, with its head-quarters at Augsburg. As in medieval times the kings had looked to the rich towns of Italy for financial assistance, in the sixteenth they began to turn to this great German banking establishment. Half the kings of western Europe were dependent at some time or another during the century on the backing which they had from this source. The extent of the business can be gathered from the famous series of Fugger newsletters which are among the most important historical documents for our knowledge of the period. The house had its correspondents all over the world which kept it in touch with every event likely to affect the course of business. Letters reached Augsburg regularly from London, Antwerp, Madrid, India, and the Spice Islands. Not only military and naval operations but royal marriages, important trials, even Court gossip figure in the correspondence. The house of Fugger had its finger on the pulse of European affairs.

Yet though monarchs were prepared to ask the Fuggers to finance their wars for them and were prepared to accept conditions, the trouble was that they were not always prepared to keep them. Most of the governments in western Europe went bankrupt and repudiated their debts at least once during the sixteenth century. England is a notable exception, and when Queen Elizabeth is blamed for her niggardliness this fact must be remembered to her credit. For the bankruptcies of other countries led to a steady decline in their prosperity. Once they had refused to pay their debtors, it became difficult for them to borrow again.

The development of trade has another and equally important aspect. In medieval times business had been the affair of the cities. The great city corporations had often been well-nigh independent, as had been many of the great nobles and landed gentry. By the beginning of the sixteenth century the hand of the State in England had become surer. The city corporations became less and less independent. Industry began to migrate from town to country—for stout walls were no longer the only security, and as rich men began to let castles fall into disrepair and move into new country houses, unfortified and far less barbarous, so the textile worker moved into a country cottage with his loom and spinning-wheel. In Germany, where there was very little security and no supreme authority worthy of the name, this movement did not take place, and the towns and their corporations retained corresponding importance through the sixteenth and seventeenth centuries.

The change showed itself also, in England, in the control which the State began to exercise over local guilds, a control which in fact soon led to their losing all practical effectiveness. The State began, as part of its ordinary duties, to regulate the development of commerce by the gift of 'monopolies'—the sole right of trading in one particular commodity.[1] In the age of the Stuarts it was a vital issue whether the State should maintain its control of the new individualist commerce in the interests of the community, or whether commerce should in future control the policy of state. The answer (like the answer to all political questions in England) was a compromise—but it was a compromise out of which the merchants generally got what they wanted.

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[1] See below, p. 142. These monopolies had a political as well as an economic aspect, and were often used (as when the Earl of Essex was granted by Elizabeth the monopoly of the import of sweet wines) to provide money for campaigns which could not be financed out of the ordinary revenues.

V

THE RISE OF THE MERCANTILE POWERS

CORTES and Pizarro are typical of their age. The opening of new fields for conquest was the main objective on which Spanish imperial energies were concentrated. During the twenty years from 1528 to 1548 three expeditions struck inland from Florida or from Mexico into the interior of North America. Rumours had reached the Spanish settlements in the south of an Indian town of incredible wealth situated somewhere in the vast area of the northern continent. Various expeditions attempted to discover its whereabouts. The first consisted of three hundred men who landed in Florida and struck inland. They found no new Peru, as they had hoped; and of the thirteen who survived the disasters of the interior and the crossing of the Mississippi estuary, only the leader, after an almost incredible series of adventures as a pedlar among the Indian tribes of Texas, reached a Spanish settlement on the west coast of Mexico, eight years after his expedition had marched into the forests of Florida. A few years later de Soto, one of Pizarro's followers, landed in Florida, marched far up into Georgia, where he obtained a present of pearls from an Indian tribe, and returned to the Gulf, by which time a third of his men were dead. He turned back again north-west, crossed the Mississippi on barges, traversed what is now Arkansas, and died, leaving the remnant of his expedition to make their way down the rivers to the Caribbean Sea. Another, Coronado, went out with a thousand men from Mexico, and marched northwards, having heard tales of the 'seven cities' which were said to lie in the north and to rival Mexico in wealth. He found them to be mere villages, and a few emeralds was all the treasure that they could offer him. But he crossed the plains of Central North America to the upper waters of the Ohio, and he discovered the Grand Canyon. He alone of the three adventurers may have had some idea of the future which awaited the country he had discovered. He talks of having found 'prunes like those of Spain, and nuts, and very good sweet grapes, and mulberries'.

These three expeditions had no immediate effect, unless it was to prove that North America had none of those things for which Spanish imperialists looked. The Spanish possessions were held to Europe by links of gold. Every year the treasure fleet sailed from Vera Cruz bringing home to Cadiz the produce of the gold and silver mines of Peru. But it was not enough. A note in the handwriting of Philip II of Spain, written just after the middle of the century, reckons up his debts: 'Twenty million florins', he says, 'will be required to disengage our revenues, but of them we will not speak at present, as the matter is so entirely impossible.' He owes money to the Fuggers, and to merchants in Seville and in Flanders. His ordinary revenues are already pledged. The Indian treasure is practically spent. Almost the only credit items in the account are the revenues derived from the tax on the sale of slaves (a tax which we shall have cause to mention later) and a larger sum raised by the sale of indulgences to those who preferred not to fast on Fridays—what the economist would call nowadays a 'luxury tariff for revenue purposes'. And his expenses, particularly the cost of his armies in the field, were growing.

Not merely was Spain spending money recklessly on adventures which brought her in no return; there was some more fundamental fault in her economic system. She represented the old order, the belief that, provided money could be raised for the central government, all was well. Alva, Philip's general, promised him that a golden stream should flow from the Netherlands to Spain, as it had flowed in the past. The Spanish system was, in fact, the killing of the goose which laid the golden egg. The tradition in Spain was proud and aristocratic, whereas in England power was already passing into the hands of the middle class. Drake, who entertained Queen Elizabeth to a banquet on the deck of the *Golden Hind*, was a man of the people. It was as though she dined with the management of Morris Motors. Drake was a self-made man, and he had just brought to a successful issue not only a brilliant piece of navigation, but a big business coup. Wolsey, the minister of Elizabeth's father, Henry VIII, had been the son of a merchant.

Spain, and Portugal, which by the end of the sixteenth century had been for the time absorbed by Spain, had had the original geographical advantage for the Asiatic trade, but northern competition began, in the reign of Elizabeth, to tell severely. There were three great regions on which the attention of the commercial world in the sixteenth century was directed; the Baltic, still controlled at the opening of the century by Hanseatic interests; the Spanish West Indies; and the Far East, where Portugal enjoyed until after the middle of the century a virtual monopoly. The history of English seamanship from 1550 to 1650 is the story of the attempts to destroy these three vested interests by fresh discovery or by direct attack.

The foundations of the British Navy had been laid by Henry VIII, who was himself interested in the problems of naval construction, and had, indeed, a considerable hand in the design of the *Great Harry*, a remarkable ship for her day, both for her tonnage and the amount she carried. Throughout his reign and those of Edward VI and Mary, English seamanship was steadily developing. The fishing fleet sailed regularly to Icelandic waters, while fishing in home waters increased in value. These fisheries were one school of seamanship, another was piracy. British seamen were given 'letters of marque' by the enemies of Spain, furnishing them with authority to attack Spanish shipping in the name of the issuing power. The wild south-west coast of Ireland and the Scilly Isles were the harbours to which these adventurers resorted. Most of them sooner or later met their death in Spanish prisons. They often had the English as well as the Spanish authorities against them. But their crews became the most skilful seamen in the world.

Their chief prey was the shipping on the route between

Spain and the Netherlands. Pepper brought by the Portuguese from the East and gold brought by the Spaniards from the West were sold in Antwerp, to be distributed thence throughout northern Europe. Antwerp was, indeed, the only permanent international market[1] for finance and commerce in western Europe. The Scheldt was a main thoroughfare for commerce, and the coast of Holland was the natural home for a maritime people. Through a series of dynastic accidents, this region had passed into the hands of Spain. To her communications with the Netherlands the privateer fleet was a constant menace. The privateer fleets grew gradually into the navy of Hawkins, Howard, and Sir Francis Drake; and it was the problem of the security of her communications with the Spanish provinces of the north that Spain hoped to solve in 1588.

Twenty-five years before the date of the Armada the merchants of London were anxiously trying to find some way of acquiring a share of the commerce with the Far East without having to face a struggle, which they were not yet able to sustain, with Portugal. The elder Cabot had sailed in 1494 to find the northern route to Cathay, and Magellan's discovery of the southerly route led to renewed hopes of a northern passage. Projects were entertained of 'Great circle' voyages to Cathay, which would involve sailing across the arctic seas near the pole. The seas of the equator had been thought by seamen before the age of Henry the Navigator to be on fire. They had proved to be navigable enough, and it was now held that northern waters would prove to be navigable too.

Efforts to discover the north-west passage continued intermittently, well into the next century. Similar efforts were being made to discover a north-east passage to the Far East. In 1553 London merchants fitted out an expedition which was led by Willoughby and Chancellor to discover the north-east route. The expedition had not been long at sea when a storm arose which separated the two. Willoughby was driven into a northern harbour beyond the North Cape, tried to winter there, and saw his men die of starvation and frost. His body and diaries were found by natives, and news of his fate was thus recovered. Chancellor was more fortunate. He found his way into the White Sea, and from there—believing that it would be possible with comparatively little difficulty to reach Peking—travelled to Moscow by sleigh. His journey was the first rift in the monopoly which the Hanse towns had possessed of the Baltic trade. Trade steadily developed between London and Archangel in Russian goods of all kinds, chiefly furs and wax. Chancellor returned with news of the gold service off which he and his men had dined in Moscow, and with the licence of the Emperor of Muscovy authorizing English trade direct with his country. From Russia England soon began to import not only Russian goods, but goods from Persia also. This was the first big expansion achieved by English sea-borne commerce.

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[1] The great international fairs were held intermittently, and their operations were commercial rather than financial.

It was indirectly a threat to Spain and Portugal, for their ships had hitherto brought home the produce of the East and of the New World without fear of competitors. But the great natural ports of northern Europe, London, Southampton, Antwerp, Hamburg, and Bristol, had advantages in their favour against those of the Peninsula. Not only their sheltered situations and strong tides, but their nearness to the great inland markets that were forming in the Netherlands, Germany, France, and England, marked them out as the ports of the future. The Spanish ports served directly only the hinterland of the Spanish plateau. The northern ports were outlets for the agricultural produce, the fine manufactures, and the wool of the regions in which they lay. The Spanish ports were on the edge of the ocean, the northern ports often inland in the heart of the country whose industries had called them into existence.

The growing independence of the Netherlands was a further trouble to Spain. The revolt in the Netherlands, like English opposition to Spain, was a movement largely commercial in its origins and carried to completion by the efforts of middle-class merchants. Philip of Spain, the Catholic, who devoted his life to the restoration of Catholicism after the disastrous revolution brought about by Luther and his successors, determined to bring back the provinces which he had inherited in northern Europe and which were already more than tainted with heresy, into the fold of the Catholic Church. He believed that the conquest would pay for itself and probably leave something to spare. Antwerp was the richest city in the world, and there were other Flemish cities not far behind her in prosperity. Much of the commercial progress of the Netherlands came from the merchants to whom the new religion, as we shall see, had a peculiar appeal, and Philip was prepared for a policy of wholesale confiscation.

A tradition of self-government already existed in the Netherlands. Almost all the cities had ancient charters on which their rights were based, and the constitution, to which Philip had sworn allegiance at his accession, guaranteed their freedom. But the idea of Protestantism flourishing within the borders of his empire was not one which he was likely to tolerate. He applied to the Pope to create new bishoprics in order to make religious supervision more stringent, and then instituted the Inquisition. At first the effect of these measures was hardly realized. Only gradually did it become apparent that his plan was to put to death those who had ever avowed any connexion with Protestantism whether they had recanted or not. The immediate result was a violent outbreak of Protestant feeling directed not against the persons of the Catholics, but against the 'images', the pictures, the statues, the ceremonial accoutrements. The cathedrals and churches were sacked. Crowds paraded the streets in the precious vestments of the priests.

From the contemporary accounts this movement appears to have been the work of comparatively few enthusiasts. The majority were onlookers. The majority were not interested in one side or the other of the 'images' question. They stood for religious freedom. They were interested in liberty, in material and economic liberty, and until they realized that those were lost, they remained comparatively acquiescent.

During the succeeding months Spanish methods became increasingly severe. Nobles were arrested, tried, and put to death on suspicion of complicity in the revolt. A few went into exile, among whom was William of Orange, 'the Silent'. William was a Catholic, who hoped to secure a change in the methods of Spanish government in the Netherlands rather than the secession of the provinces. When eventually he tried to rouse the Netherlands against foreign oppression the response was small, until the Spanish viceroy, Alva, determined to raise money for the suppression of the revolt, imposed a tax of 10 per cent.—the tenth penny—on all sales in the provinces. Its effect was magical. Shops were closed, business was at a standstill. William's admiral managed at the right moment to seize two seaport towns; their capture brought new life into the revolt. It was like the mercenary army in the epigram of Mr. A. E. Housman, the mercenary army who 'saved the sum of things for pay'. The Dutch fought for their liberty and their religion, but it seems to have been the 'tenth penny' above all else that roused them to think about freedom and to think about God.

The decisive element was not the land, but the sea. William's only permanent force from the start had been his fleet, the 'Sea Beggars', under the control of de la Marck. Not a few Englishmen took the opportunity of securing an occasional Spanish prize, and formally enrolled themselves under his banner. There were others who were not in theory de la Marck's men, but in practice worked with him. They were the despair of those of the English Queen's ministers who were working for an understanding with Spain. Yet the opinions which counted in England were against such an understanding. The seamen from Dover to Plymouth were Protestant and anti-Spanish, partly because their calling gave them a peculiar independence of thought, partly because English seamen knew what the Catholic Inquisition, the 'Holy Office', meant, partly because Spain was keeping from them what they wanted. Men like Hawkins had realized that there was a fortune to be made in the slave trade between Africa and the Spanish colonies. But the trade was closed to them because the King of Spain would have no truck with Protestants, and feared for the revenues which he drew from the taxing of the trade. The same was true of the Cape route to the Far East. As yet it was a door closed to English seamen; but they were determined to open it. They were indeed bound to look jealously on the glittering prizes which were being won so easily by merchants of Portugal and the adventurers of Spain. In 1563 Hawkins had set out to seek a share of the profits which the slave trade with the western colonies of Spain offered. The planters could not get enough labour to satisfy the demands of their growing businesses, and high prices were fetched by slave cargoes. The traffic was regulated by the Spanish Government, which made a handsome revenue out of the 30 per cent. tax levied on sales of slaves.

Hawkins's voyage began most successfully with the capture of a substantial cargo of slaves. He sailed to the West Indies, sold his slaves advantageously, left a deposit for the tax, invested his takings in a cargo for Cadiz, and returned to Plymouth. He was hardly landed when he heard that not only his deposit but the cargo in which he had invested his profits, had been seized. He was furious, and wrote himself to Philip to complain, but nothing was gained by such tactics. Hawkins proceeded to retaliate. He fitted out another expedition larger than the first, captured another cargo without mishap, sold it to the planters, and sailed home by way of Newfoundland. He had been away eleven months, and his expedition made a profit of 60 per cent. A third expedition was planned, and on a considerably larger scale. Once again it secured its cargo and reached the Spanish settlements without positive mishap, though greater difficulties were encountered than hitherto, once again the slaves were sold profitably. As he was making his way home along the coast of Cuba, he was overtaken by a severe gale which blew for four days and left him badly in need of refitting; and he turned reluctantly back for San Juan de Ulloa, a fine harbour at the bottom of the Gulf of Mexico, but in Spanish hands, and too near the northern end of the land-route by which Spanish gold came across to the Gulf from Panama.

Hawkins was certainly not without his misgivings. His plight must have been serious to convince him of the necessity of taking shelter in the harbour of San Juan de Ulloa. Even so, all might have been well. He had with him a force to be reckoned with. He sailed into the bay, gave notice of his arrival to the Spanish authorities, and announced that his intentions were peaceable. He was careful to give no offence, since he could ill afford to do so, and he proceeded to take in hand refitments with all possible speed.

He was too late. He had been in harbour two days when a Spanish fleet appeared outside. It brought with it the new Viceroy of the Indies, who had special instructions to look out for Hawkins. Philip had heard from his ambassador in London of the expedition's start and was determined that this time Hawkins should not bring back 60 per cent. Hawkins commanded the harbour, and in order to enter it the Spanish admiral pledged himself to allow Hawkins to continue his repairs unmolested. The bargain was broken, and Hawkins was treacherously attacked. Two of his vessels succeeded in making their way out; but the largest, the flagship which had on board the profits of the expedition, was trapped, and the Spaniards succeeded at length in firing her. Hawkins and his crew took to the boats and rowed out under the guns of the harbour batteries into the open sea. With the flagship and two smaller vessels lost, the ships were crowded. They were still unseaworthy, and if the weather had changed, the whole expedition must almost certainly have been destroyed. They put in for what shelter they could on the east side of the Gulf, left behind a hundred men who volunteered to stay—they ultimately fell into

Spanish hands—and made off for home, praying for fair weather. Hawkins was to be avenged on Philip in time. Meanwhile, his cousin, Francis Drake, who had been with him in the harbour of San Juan de Ulloa, did not wait for the distant future to bring him justice. In 1572 he fitted out a small vessel in Plymouth harbour, and sailed for the Isthmus of Panama. He reached the Isthmus without mishap, and with native guides found the route by which the treasure came overland from Panama. A convoy was due. It was ambuscaded, all that was precious and portable was taken back to the shores of the Gulf, the rest buried. Drake sailed home. The account now showed a substantial balance. But his voyage had taught him something. It is said that he had climbed a tree on the mountains of Panama and had seen the Pacific. Five years later Drake sailed out of Plymouth in the *Pelican*, which, as rechristened the *Golden Hind*, was going to win a name for herself such as no English ship, except perhaps Grenville's *Revenge* and Nelson's *Victory*, has ever won. This time he made southwards, wintered in South America, and passed through Magellan's Strait into the Pacific. There he was caught by a gale which took him far southwards into the Antarctic ocean; he was first to discover that Terra del Fuego was only an island. He weathered the gale, and started again northwards. The Spanish colonies of western South America, whence were drawn all the riches of the Spanish empire, knew nothing of him; rumour of his start had indeed been received, but that he should appear in the Pacific was undreamed of. At Valparaiso he picked up his first prize, a galleon with gold on board from Peru. Farther north at Tarapaca he found bars of silver on the quay waiting to be shipped. They were almost unguarded, and so he shipped them, without having to fire a shot. Most of all he had hoped from Lima, but he arrived there only to hear that the year's produce of the gold and silver mines had been loaded a few days before, and was already on its way to Panama.

Drake darted north. He relieved another Spaniard of eighty pounds' weight of gold after being two days at sea, and farther north he caught sight of the prize he was chasing. He kept enough distance for her to take him for a Spaniard till nightfall, when the *Golden Hind* swept down with a sudden broadside, boarded the Spaniard, and almost at a blow captured her. Her cargo was bodily removed to the hold of the *Golden Hind*, her crew was put back, and she sailed into Panama. Drake made off to the north, where he had planned to take the North-west Passage back; but finding the coast indefinitely extending northward, he changed his plans, refitted his ship and struck across the Pacific. He made the Philippines, scraped along a reef off the coast of Java, from which he was saved partly by luck, partly by skilful seamanship, voyaged without mishap across the Indian Ocean to the Cape, and in due course sailed safely into Plymouth Sound.

The voyage of the *Golden Hind* is not merely the most brilliant piece of seamanship which was ever accomplished by an English navigator, but also it marks an epoch in commercial history. It taught Englishmen the possibility of attacking the Spanish and Portuguese monopolies. Its natural sequel was the Armada, not merely because Drake had declared war on Philip as he obviously had done, but because English seamen, and the merchants who backed them, realized that the time had come when any great expansion must be at the expense of Spain. London had indeed already been financing the schemes of William of Orange. When Philip realized fully at last that until England had been mastered there was no hope of finally mastering the Netherlands, he decided that invasion must be undertaken. To him it was a religious war. Catholic Europe prayed for its success throughout all the years of preparation. The armament was to be immense. The greatest fleet the world had seen was to sail up the channel and meet in the Netherlands a Spanish army, which it should convey across for the projected invasion.

The plans conceived on this vast scale slowly matured.

But Drake was not altogether unprepared. When the fleet was almost ready, he swept out of the Channel before a northwest gale, and in six days was off Cadiz. The harbour was thronged with shipping, but he ran in under the guns of the fortresses which guarded the harbour mouth, plundered what he could carry away, and burned the hulks. He coasted on, half minded to sail into the Tagus, too, but urgent messages from Elizabeth turned him back. On his way home he fell in with one of Philip's treasure ships. The cargo, probably worth something like half a million, came back to Plymouth in Drake's hold. This expedition, though it retarded Philip's plans, only hardened his determination. It was characteristic of him, however, to neglect details and to rely on heaven and the size and number of his galleons to outweigh the shortcomings of contractors who equipped them. His commander was pious but incompetent. Both in the narrower and in the wider sense he was a bad sailor. What was magnificent about the Armada was the belief in the sacredness of the cause it had undertaken. The war was a war of religions, for in their less grandiose and more individual way the English captains also believed that God was on their side. The accounts of their voyages during the second half of this century are full of implicit confidence in divine help, and they were the first to give God the glory for the success of their brilliant piracies.

Towards the end of July 1588 the Armada sailed. As its arrival had been delayed, the supplies of the English fleet began to run low, though, thanks to Burleigh, in guns and equipment it was greatly superior to the Armada. At last word was brought that the Spaniards had been sighted. The galleons moved magnificently up the Channel, their splendid appearance giving no sign of the uneasiness of the man who commanded them, an uneasiness justified by the results of the first fighting. For one of the largest of the galleons, which had been fouled during the first encounter, was left to her fate. She was a rich prize for the Englishmen, and provided what was badly needed, powder and shot. As the Spanish fleet moved towards the Straits, there sailed from the harbours of the south coast privateers to swell the size of the English forces, vessels which belonged to private citizens, who had no obligation to fight, but who were fighting because the quarrel was their quarrel. If the army of the Netherlands could ever have crossed the Straits, it is impossible to guess what the result might have been. There was a powerful Roman Catholic party who might have been willing to go so far as to support a Spanish army in order to bring back their country into the fold of the Catholic Church. But the army never crossed.

After five days' skirmishing as he sailed up the Channel, the Spanish admiral determined to shelter for a breathing space in Calais Roads. There news came which must have revealed the extreme danger of his situation. The Army of the Netherlands was not ready, and would not be ready for some weeks, to attempt the crossing. Organization, faulty from the start, had once again failed the Spaniards.

And even off Calais the Englishmen hung restlessly about the fringes of the Spanish fleet, and their persistence must have deepened the uneasiness which the message from the army had caused. Then, about midnight, flares were seen among the English fleet, and after, a steady glow of fire. And then blazing hulks were seen drifting down into the Calais anchorage. The Spanish admiral weighed anchor, and by a miracle the fleet moved off in the darkness without accident. The fire-ships burnt themselves out harmlessly. But the morning broke grey with a freshening wind. Drake, with most of the English fleet behind him, was following the Spaniards. He had been reinforced from the Thames with ships and with further supplies of powder. The English had all the advantages which years of rough seamanship had given them. For a whole day the English cannon raked the Spanish fleet; and then towards nightfall the fleets drew apart. All day the wind had been blowing up for a gale, and now it set in with its full force from the north-west. For a time it appeared that the Spanish fleet must be driven on the sands by the gale. Suddenly it veered round to the south-west, and gave them the opportunity of working round northwards into the open North Sea. They had been saved only to be scattered to a more terrible destruction. Attempting to round Cape Wrath and return to Spain by the west coast of Scotland and the Irish Channel, the stricken Armada left a trail of wrecks on the headlands and in the bays. Less than a quarter of the men who had set out from Spain returned.

But while the English had been the victors in the encounter, the chief commercial result of the defeat of the Armada was the growth of Dutch prosperity. The fortunes and existence of Holland were at stake rather than those of England. All it did for English seamen was to secure the *status quo*, for the attempt to follow up the victory over the Armada with an attack on Spain met with almost equally crushing disaster.

But the period is nevertheless one of great progress in English overseas trade. Before the Armada's defeat Englishmen had begun to trade with the Levant. In 1579 a treaty made with the Sultan Murad III (Shakespeare's 'Amurath') had given English seamen the right to do so, and four years later occurred the voyage of the *Tyger* to Aleppo (or as near to it as the *Tyger* could sail), a voyage to which such sensational allusion was made some years later when *Macbeth* was written. Five merchants who sailed on the *Tyger* attempted to make their way overland from Syria to India. Four of the five got beyond Basra, and were arrested at Ormuz which was now in Portuguese hands, Ormuz, the wealth of which even in Milton's day, two generations later, was to be mentioned in the same breath as the glories of Satan's throne. They were taken to India as prisoners, and there one of them remained. Three escaped, one to try to struggle back through Persia—who was never heard of again; one to take service with the Mogul; and one, Ralph Fitch, who somehow got back to England again by 1591, and who, at the time Shakespeare wrote *Macbeth*, was one of the most experienced members of the new East India Company and no doubt felt highly complimented by the allusion to his remarkable voyage. It was about the same time that Sir Anthony Sherley made his way to Persia, and everybody who had read his book (and achievements like those of Drake, Fitch, and Sherley were the talk of London) and who saw *Twelfth Night* when it was produced in 1602 must have recognized Sir Andrew Aguecheek's allusion to the Sophy of Persia. Levantine commerce was not what it had been in the days before the ocean routes had been discovered, but there was still money to be made out of it; and its pioneers have that magnificent care-free enterprise which, with a certain naïve indifference to the distinction between *meum* and *tuum*, is the character of their age.

The Low Countries had for a long time been an important distributing centre (cf. p. 90). During the fifteenth century a new industry had sprung into being when the herrings of the North Atlantic obligingly broke the Hanseatic monopoly by refusing to spawn in the Baltic, and turned instead to the coasts of Holland.[1] There was an extensive market for cured fish, and the Dutch ingeniously discovered that method of turning herrings red which was only superseded two generations ago by the invention of the Yarmouth bloater. Dutch captains began to get into their hands a very large proportion of the carrying trade of the North Sea, the Baltic, the Bay of Biscay, and the Straits of Dover. The Spaniards and Portuguese were content to bring their cargoes from the East or West Indies to their own ports, and to be relieved there of the bother of finding markets for them by Dutch merchantmen who carried them to the northern ports. The Spaniards and Portuguese, as always, had their eyes on the big prizes of the East and Indian trade, and the more regular revenues to be secured by the coastal carrying trade did not interest them. These accordingly fell into the hands of the Dutch, and though Philip II attempted to close all the ports of the peninsula to Dutch shipping, his efforts failed, because the Spanish and Portuguese exporter had learnt to depend on the Dutch to buy his goods and to bring him in exchange cloth from the north. The expansion of the seaborne commerce of the Low Countries had made Antwerp, with its tidal harbour, the chief commercial city of the region; but now after the revolt against Spain, this in turn declined before the rising prosperity of Amsterdam. Antwerp was the capital of those southern provinces which were left after the revolt still within the Spanish empire. Amsterdam was the capital of the northern states, which had shaken themselves free of the Spanish monarchy.

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[1] See above, p. 92.

Philip's efforts to cut off the trade of the Dutch with Spain encouraged the Dutch to attempt to tap for themselves the commerce of the Far East. In 1595 they sent a fleet by way of the Cape of Good Hope to Java and the Spice Islands, and the success of the enterprise was so considerable that just after the turn of the century a company was formed, the famous Dutch East India Company, for the exploitation of the Eastern trade. It had what was at the time a very large amount of capital at its disposal, something near half a million pounds, and it was, indeed, more than a mere trading company. The company not only owned merchant ships, but also ships of war, and one of its avowed ends was hostility to Spain. It maintained in its settlements or 'factories' armed forces, and these were employed without hesitation not only to impress on the natives the advisability of concluding a quick bargain, but also to impress on commercial rivals the danger of intrusion on Dutch preserves.

At the same time, though it possessed so many of the attributes of a state, the Dutch East India Company's policy was dictated by commercial motives and had none of the Spanish missionary zeal. It destroyed regularly large areas of the forest plantations from which spices were derived to cut down production and thus maintain high prices. The Dutch developed trade with Japan and China, a trade from which they soon succeeded in cutting out the Portuguese, and the Portuguese colonies one by one fell into their hands. In its early days the Company was managed with great skill, and the integrity of its staff was well known. Its directors were appointed actually by the Dutch State, though each of the important contributory cities in Holland had some say in the selection; and it had, as had all these great trading companies of the seventeenth century, the monopoly rights of the trade in the area in which its operations extended.

In the year 1600 the British East India Company was also founded. The capture of a Portuguese East Indiaman with a cargo of 'gold, spice, calicos, silks, pearls, drugs, porcelain, and ivory', had whetted the appetites of the merchants of London, and though the English Company was a much smaller concern than the Dutch Company, its first venture, a voyage to Sumatra, realized 100 per cent. profit. Like the Dutch Company, the British East India Company was granted a monopoly by the Crown. Though this system has been criticized, it is clear that no other would have been workable. The trade involved great risks, and considerable precautions had to be taken for its protection. There was no diplomatic machinery which could be put into action if one side of a bargain was unfulfilled, and the company had therefore to depend on the military and naval force at its own command.

That the voyage to the Far East still involved risk is shown by the continuance at intervals of attempts to find another passage to Japan, China, and the Spice Islands. One of the most famous voyages made in the hope of discovering the north-west passage to the Far East was that of Hudson. Hudson sailed at one time as the agent of London merchants, at another as the agent of the Dutch. His efforts were rewarded by discoveries in the bay which bears his name, and they opened up a new fur-producing region. The development of hunting and trapping in northern Canada was an important factor in the isolation of Russia, from which the furs of Europe had hitherto been mainly derived. Hudson's adventurous spirit was too bold for his crew's liking. On Midsummer Day, 1611—the year before the first performance of *The Tempest*—Hudson himself, seven sick men, the ship's carpenter who refused to leave him, and John Hudson, who is assumed to have been his son, were put into an open boat with 'a piece and powder and shot, and some pikes, an iron pot, and other things. They stood out of the ice, the shallop being fast to the stern of the ship, and so when they were nigh out, for I cannot say they were clean out, they cut her head fast from the stern of the ship; then out with their topsails and toward the east they stood in a clear sea.' In that tiny boat set adrift by his own crew in Hudson Bay, Hudson disappears from history.

He was not the last to sail in those waters. Three years later Baffin sailed on the same quest, and though he also failed to make the passage, magnetic observations which he then made were of the greatest value. These efforts show that even with the formation of the East India Company, men did not regard the problem of the far eastern trade as solved. The first of the Dutch voyages to the Indies had taken over two years to complete (April 1595 to August 1597) as did the first of the voyages of the English Company. The trade involved heavy risks, and the maintenance of a military force. But in spite of these difficulties the Companies were during the first half of the seventeenth century an immense commercial success. From two trading companies they grew into two empires in whose fate the peace of Europe was involved.

European empire in the East, which began with the voyage of Vasco da Gama, and was steadily extended by the Portuguese throughout the years 1500–75, now passed into the hands of the Dutch and the English. It was in its way as important as European empire in the West, which had begun with the Spanish occupation of the West Indies, and spread with the conquest of Mexico and Peru. But it was of a very different character. The West was, generally speaking, uncivilized. The civilization of the East was far richer in some respects than that of Europe itself. It had its roots in an even more distant past. Books had been printed in China since at any rate the eighth century A.D.; noble Indian families traced their descent, not from the time of William the

Conqueror, but from the time of Alexander the Great. The problem of the Portuguese, then, was not like that of the Spaniards, and they solved it in a different way. They aimed at obtaining a footing for trade rather than at actual occupation. They tapped the extensive manufactures of India by means of factories, rather than by that system of ownership which prevailed in Spanish America. The climates into which they had penetrated were generally less healthy to the white man than those of the West Indian Islands, or the highlands of Mexico and Peru. Where they attempted a permanent settlement, they attempted also to solve this problem by intermarriage with the natives, hoping thus to produce a strain which would be better adapted to the new environment. The experiment was one of the notable failures of imperialism. It led, not to improvement, but to almost immediate degeneracy, and was dropped. The Portuguese empire, therefore, when it came into the hands of the Dutch, consisted of trading stations which controlled the whole of the Indian Ocean, but except for the possession of some of the Spice Islands its territorial extent was, compared with its importance, not great. Europe had acquired control of the exports of the East. She had fastened hold of the commerce of the peoples of India and China, enabled to do so mainly by the brilliant advances in the art of navigation and of military science which she had made. This control led to an assumption of superiority where all that the facts warranted was an assumption of difference. It opened the way for exploitation in the future, and when exploitation came it was undertaken by men whose interests were mainly economic, and who had little appreciation of other values.

While commerce had for a long time been influencing the course of political history, its limitations during the period covered by this chapter must be remembered. Throughout the Dark Ages western Europe had lived from hand to mouth. With the Middle Ages began the growth of the towns, communities depending for their maintenance on a larger 'hinterland' and forming with their regular markets opportunities both for the surrounding villages to exchange produce amongst themselves, and also for more skilled and concentrated manufacture. As the small towns grew bigger,[1] they grew out of their 'hinterland' and it became necessary for them to look elsewhere for regular supplies of food. They were soon to discover where it was most cheaply produced, and by the fourteenth century London was intermittently dependent on corn from abroad, chiefly from the Baltic lands. But although exchange took place on a comparatively large scale, it had severe limitations. Transport by land of bulky goods was prohibitive in price, and remained so until the great canal- and road-making era began in the second half of the eighteenth century. The price of a commodity like corn or wool is now a world price, and fluctuations of price in America are at once reflected in the exchanges of Europe. Until goods could be transported easily from place to place, this was not so. As late as 1760 the price of corn in London was 23*s*. a quarter, while in Gloucester it was 37*s*. 4*d*. This gives some indication of the difficulties of transport under which commerce still laboured.

Again, there were no shops like the modern general stores until the late eighteenth century. Most purchases were made in the market, where all consumable goods were normally obtained. An important figure in seventeenth-century village life was the pedlar, but he came round chiefly with luxuries—fine knacks for ladies, as he called them, ballad sheets to suit those happy or those crossed in love, such as Autolycus had in his basket, coloured foreign stuffs to be worn as a contrast to the normal homespun, and so forth. The pedlar was a more important element in the commercial system of eastern Europe than in England. Scotch pedlars hawked goods extensively through the country districts of Poland and Bohemia, and were so unpopular that legislation was passed against them. It was in central Europe that the weekly market remained the ordinary method of commercial exchange for the longest time, though even in England it retained its importance until the eighteenth century. Complementary to the markets which took place weekly, or even in some places daily, were the big yearly fairs at important centres; the business in them was mostly wholesale, and it was at them that the dealers bought their stock. In the eighteenth century there was still a chain of cities in which such fairs were held all over Europe, cities such as Dijon in France, Frankfort in Germany, Nijni-Novgorod and Moscow in Russia.

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[1] It is estimated that London in the time of the Stuarts had a population of about half a million. After London in size came Norwich and Bristol, with probably less than 30,000 apiece.

These facts give some idea of the comparatively small scale of commerce (outside one or two prosperous regions) at the time of the Renaissance. But it had nevertheless great cultural importance. Italian art flourished on the spoils of commerce. In Belgium, Flemish painting owed its brilliance in no small measure to the prosperity of Bruges and Antwerp. The pictures of saints, with the portrait of the donor in one corner, were generally a tribute from a large fortune made in commerce. The Church, as well as the merchants, was certainly a great patron—the greatest patron—of the arts, but the revenues on which she depended were ultimately themselves derived very largely from the profits of commerce. In Holland it is the same. When Dutch trade becomes important, the great Dutch masters begin to appear, and Rembrandt lived through the age where the Dutch East India Company was making its largest profits—and, incidentally, became unfashionable and died an undischarged bankrupt, which is a significant comment on what can happen to artists in a mercantile age. In England a proletariat with pennies to spend, and a middle class with sixpences, was a new phenomenon. Shakespeare padded out his plays with knock-about jokes to please the one, and the exquisite madrigals of a score of composers were sold to the other. The one were in the employment of London manufacturers and merchants. The other were sons and wives and daughters of the new country gentry, who were, as we shall see, finding their rent-rolls increasingly profitable. Some of the great figures in literature owed much, a few perhaps everything, to noble patrons. *A Midsummer Night's Dream* was almost certainly written originally, or at some time rewritten, for performance at the wedding of such a patron. Yet, for the age of Shakespeare, this was still the exception rather than the rule. The characteristic of Elizabethan literature and music is the width of its appeal. The collections of lyrics were 'best sellers' running through several editions. Verses were hawked round by pedlars, for the daughters of the country gentry to buy. Art was reaching not only the Court, but the upper and upper middle classes.

During the century following the Reformation the scale of commercial enterprise was continually growing in countries like England, where hitherto the individual undertaking had generally been small. This was, in part, due to the great discoveries. Overseas trade now called for supplies of capital which would have been both unnecessary and unobtainable for shipments of wool across the North Sea in the fifteenth century. The rise of the Fuggers is significant of this demand for capital on a large scale. They financed mining in Hungary and trading voyages to the Spice Islands, side by side with financing impecunious governments; and the growth of great joint-stock companies, engaged in enterprise of considerable size, becomes more and more marked in Stuart times. Even the development of land—such schemes, for instance, as those for draining the Cambridgeshire fens—sometimes called for more capital than individuals could conveniently produce, and was accordingly undertaken by joint-stock enterprise.

For the possibilities of land for investment were understood increasingly well towards the end of Elizabeth's reign. Quite apart from sheep-farming, agriculture was being practised on a larger scale for the supply not only of the immediate neighbourhood, but of more distant towns and villages. If the best results were to be obtained, enclosure was essential, and whereas in early medieval times the efforts of land-owning classes had had to be exerted to prevent the serf leaving the area to which he was legally bound, now it was to the interest of the landowner to promote depopulation. This was a powerful factor in the break-up of the old system, but it had its grim side, and was violently denounced by many of the earlier reformers, as by Cranmer himself, for it left the dispossessed serf often with no alternative except vagabondage.

Most of those who were pioneers of the change from medieval to modern conditions had no conception of the way in which the revolution was going to get out of hand. They might see that the guilds were by now a hindrance to development in all sorts of ways; but they did not conceive of their being swept aside with nothing to replace them. In fact, throughout the Tudor period and beyond, the State claimed to be the successor of the guild in the regulation of trade, and it was with growing dismay that some ministers and monarchs saw not only commerce, but also landed interests refusing to answer to the curb of State control. Attempts to control took various forms, including regulation, and the granting of monopolies, almost all of which originated in the conscious attempt of the Crown or its ministers to direct commerce into new channels. Burleigh, Queen Elizabeth's minister, attempted to develop mining in England in this way, and the argument in favour of the method is precisely the same as the argument in favour of the granting of a patent—which is, in fact, what the monopolies were. Burleigh used the same means to attract all sorts of new manufacturing processes to the country. But though he made it his practice to consider what interests already established were likely to suffer by his action, he often caused offence. Merchants were beginning to claim complete liberty of action and to resent any attempt made by the State to interfere with the course of trade, and similarly landowners (many of whom derived their title from lands bought by themselves or their ancestors from the State at a ridiculously low rate, lands which had belonged to monasteries or schools or hospitals, and had been confiscated by Henry VIII or his son and sold to meet immediate needs, for whatever they would fetch) opposed with growing firmness any attempt to subject their actions to regulation. These two classes, the commercial and the landed classes, had now a community of interest and a close contact which had never existed between the mercantile and agricultural elements in medieval society. It became, indeed, the constant practice of those who had had a successful commercial career to invest their profits in land and join the ranks of the landed class. The seventeenth century saw the consolidation of their alliance, which ultimately became so powerful that before the century was over the interests it represented politically controlled the country. There is nowadays (as Mr. Housman reminds us),

> . . . many a peer of England brews
> Livelier liquor than the Muse.

This was not yet quite true in Elizabethan times, when the peers, in fact, still tended to make poetry rather than to make beer. But the situation which made such an enterprise possible for the peerage was already coming into being.

In spite of all Burleigh's patents it was still, as a contemporary writer picturesquely said, the 'golden fleece' that was 'England's Indies', and though merchants often made fortunes which by the standards with which they had started were very large, it was still land and the wool it grew that brought in the big permanent incomes; though if it happened to have coal underneath it, that might already produce an extra £5,000 a year (as it did for a friend of Burleigh's) without one having to work for it.

VI

THE SEVENTEENTH AND EIGHTEENTH CENTURIES TO THE TIME OF ADAM SMITH

I. THE MERCANTILE SYSTEM

DURING the seventeenth and eighteenth centuries, England faced in different regions the rivalry of three western powers. Though Spain had been defeated in 1588, the defeat did not finally open to England (as Drake may have hoped it would) the markets of America. The war had indeed ended in disaster for the English, and in America they secured only a precarious footing (in Virginia) while the door to trade with the extensive and prosperous Spanish colonies in the south remained shut. A century later English governments were still embarking on war to try to get modified the restrictions under which English merchants—largely slave-traders—worked. Secondly, it was during this period that the rivalry between England and France reached its climax. Both in India and also in North America the interests of the two powers were in conflict. By the end of the eighteenth century, though Napoleon was still climbing to the height of his European power, the issue was virtually decided. English supremacy in India and in Canada was no longer challenged. Thirdly, England was faced with the commercial rivalry of the Dutch. During the seventeenth century the Dutch were the commercial nation of Europe, and England was only a competitor. The struggle between the two countries centred round two main issues, the trade of the Far East and the carrying trade of Europe. Here, too, by the end of the eighteenth century, competition between the two had virtually ended. In the Far East luck had made the decision favour England, for India unexpectedly proved to be a more valuable acquisition than the Spice Islands. In western waters hard fighting was inconclusive for many years, so level was the balance of sea-power; but a commercial war was waged with greater persistence than that of the actual maritime fighting between the two parties of the dispute, and it proved decisive.

English foreign policy was, to a great extent, conditioned by these three disputes. There was at the time a very widespread consciousness of the economic aims of war. This was partly because the value of sea-power was more obvious then than it is now. Water transport was the only means of communication for trade on a large scale. Even towards the end of the eighteenth century the cost of transport of goods by road in Britain was prohibitive. Of the continent of America, the fringes only had been touched. Almost any seventeenth-century map of any of the new countries shows, by the grouping of the settlements, that they still depended practically entirely on seaborne communications.[1] The importance of water transport persisted well on into the nineteenth century, certainly outside Europe. In Britain, it is true, by the end of our period the great road-making era had begun, and by 1800 travel by coach was remarkably rapid. In the new countries, however, it was the invention of the railway which inaugurated the development of the interior. Not till the construction of a railway into the interior of a continent became a possibility, if not yet a fact, did the interior of Africa, North and South America, and Australia begin to be explored and gradually opened up to European civilization. In the seventeenth century man's dependence on the sea was obvious. The issue of sea-power, therefore, was a matter of the closest interest to all western Europe.

Accordingly it was an age when commercial rivalry was more constantly present in the minds of statesmen than it had hitherto been. It was the age when the 'Mercantile System' was the controlling force of international politics, and was professed by statesmen as their guide. International commerce then was less complex than it now is, and theories about it were proportionately more plausible. Adam Smith, that great writer whose work, coming at the end of our period (the *Wealth of Nations* was first published in 1776), did more than that of any other individual to break down the Mercantile System, is sometimes spoken of as the founder of Economics. In fact, economists had flourished during the seventeenth century, and their arguments were the gospel on which the statesmen of their age acted. The crop of seventeenth-century economists was the result of changing conditions. Governments were beginning to believe that the basis of the welfare of the State must, in the last resort, be economic, which meant not that the king or the government should have money at their disposal, drawn from mines or estates or confiscation, but that the merchant should prosper, and by his prosperity provide the source from which the State could draw for its necessities. As to which was the best way of securing this prosperity for its merchants, no two governments precisely agreed, but the general end in view in Spain, Portugal, France, England, and Holland was the same. The dangers of depending on a direct supply of gold rather than on the prosperity of the nation as a whole had been proved by the experience of Spain. She had relied almost exclusively on her gold and silver mines, and had interested herself in commercial policy only so far as it directly affected her revenues, and the results had been that between the years 1550 and 1650 her government had been bankrupt no less than six times. This was a more serious matter than may appear from the bare statement. Each bankruptcy made it progressively more difficult for her governments to persuade financiers to lend them money. Some, indeed, and among them the Fuggers, were ruined by her default. Each was closely followed by some serious national reverse, and this was a natural consequence, since bankruptcy made it impossible to borrow the wherewithal to pay her armies. Our period ends with the bankruptcy of France, the result of the failure of the efforts made by her statesmen in the late seventeenth and early eighteenth centuries to provide her with a solid mercantile backing. That bankruptcy was one of the immediate causes of the French revolution.

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[1] As Swift neatly wrote:

Geographers in Afric maps
With savage pictures filled their gaps,
And o'er unhabitable downs
Placed elephants for want of towns.

One of the main convictions of the English mercantile economists was that foreign trade which led to the net importation into the country of bullion, which at the time meant gold or silver, was valuable, whereas trade that led to the net export of bullion was to be deplored. Economists in other countries, though Holland was a noteworthy exception, held similar views, and in consequence many regulations were made which attempted to stop the export of gold altogether. The conviction was based, to some extent, on the feeling that gold and silver were the only tangible forms of wealth, a feeling which was immemorially old and had a measure of truth for states which wanted money mainly to finance wars; partly, too, on the belief that gold and silver from their nature could not compete with any home product, but implied, indeed, that some home product, raw materials, manufactures, or the services rendered to a foreign merchant by an English[1] ship had been paid for; and so employment had been provided for English workers. Imports for which payment had to be made in gold, such as most of the imports of the British East India Company, were only countenanced when they were imported only to be re-exported again and sold for a larger sum than had been paid for them. The Indian trade was excused on these grounds. Indian goods were re-exported partly to the countries of Europe, partly to Africa, where they were exchanged for slaves who were in turn sold in America, and so ultimately brought their value in gold and silver to England. As Adam Smith pointed out, however, this theory resulted in the suppression of trade which was often most valuable. More often than not, trade is 'three-cornered'. Imports from Portugal might have to be paid for in gold if Portuguese merchants did not wish to buy the full value of English manufactured goods for them; but this might only mean that Portugal had a credit balance to spend on imports from some third country, France it might be; and that France, by the money made out of the transaction, was enabled to buy English manufactures. If this was so, it might well mean that the export of bullion to Portugal would in the end be thoroughly profitable. The balance of trade is at present made up mainly of such transactions, not only three-cornered, but many-cornered. The strict application of the principles of the mercantile system was bound to be a hindrance to trade of this kind, and the application of this mercantilist doctrine did much more harm, at least towards the end of the period covered by this chapter, than good to the prosperity it was designed to foster.

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[1] Until the date of the Union Scottish merchants were excluded from the advantages enjoyed by English merchants. After that date it is more accurate to speak of British merchants, though it must be remembered that throughout the eighteenth century Irish commerce was energetically suppressed by the English government. See below, p. 150.

Another important feature of mercantilist policy was its attitude towards colonies. Most of the English colonies were originally run by commercial companies. The settlement of North America, which seriously began in the age of the Stuarts, was originally a commercial venture. In such a case the land of the colony for which the company concerned was responsible became its property, and its profits were drawn from the rents its tenants paid. The mercantile doctrine was that the colony should be run to the best advantage of the exploiting company and to the best advantage of the merchants of England as a whole; and that any local manufacturers likely to compete with home manufacturers should be suppressed. It follows that a tropical country, the produce of which could not compete with home produce, was regarded as the most valuable colony. In the colonies of Spain and Portugal there was a further, and pernicious, development of the system, by which the monopoly of all trade, both to and from a particular colony, was granted to a single company. This led immediately to the exploitation of the colonists in the company's interests. Colonial produce was bought at low prices, and for what was imported from Europe exorbitant prices had to be paid. It is a good illustration of the extremes to which the mercantilist doctrine—that the colonies existed for the benefit of the mother country—could be carried. There was no single fact equally responsible for the relative prosperity of the North American colonies, as compared with those of Spain and Portugal, in 1760, as the absence of a company monopoly regulating their external trade.

Although this particular abuse was lacking in the English colonies, on them, too, restrictions were imposed in the interests of the mother country. Any raw materials which England could not produce they were encouraged to supply. Naval stores, for example, that is to say, pitch, tar, hemp, timber, and so forth, were obtained normally from Scandinavia. This trade was regarded by economists with disfavour, because it took money out of the country, and, accordingly, every effort was made to encourage the colonies to supply such stores, and bounties were granted on them. The export of wool, however, which might have competed with that of England, was expressly forbidden, and the manufacture of woollen goods (a manufacture which would have competed with England's staple industry, providing the bulk of English exports to America) prohibited under heavy penalties. The colonies were allowed, according to the well-known example, to export beaver skins, the raw material for an English industry, but they were forbidden to export beaver hats.

The effects of these regulations were not so harmful in North America as might be expected. American produce was largely different in kind from English produce, and so there was no call to prohibit it. The largest item in the export trade of the colonies was tobacco. Moreover, as soon as the regulations began to be irksome, they were disregarded. Smuggling was rife all along the American coast. As soon as some effort began to be made to enforce the regulations, the revolution took place and the problem was thus solved. Elsewhere, however, the regulations had disastrous consequences. Their injustice in the case of Ireland is notorious. Ireland's natural resources were similar to those of England. She depended, as she does still, to a great extent on the sale in England of her dairy produce, and on her manufactures of textiles. And yet,[1] by the laws of 1665 and 1680, the import into England from Ireland of cattle, sheep, swine, beef, pork, bacon, mutton, butter, and cheese was forbidden. By laws of 1663, 1670, and 1696 Ireland was excluded from all trade with the colonies. In 1699 the English parliament prohibited the export of manufactured woollens from Ireland. In the previous year the Irish parliament had been constrained to forbid all export of wool from Ireland, except to England, and to discourage woollen manufacturers. The regulations were designed, in fact, to ruin Ireland if her produce showed signs of competing with that of England. The policy completely succeeded. Nor was Ireland the only sufferer from such regulations. The English West Indies, for example, were hit hard by a law preventing their refining the sugar grown by them, a law designed for the benefit of sugar-refiners in England. These are obvious instances of the oppressive legislation which the Mercantile System was liable to produce.

Another series of enactments were based on the mercantilist view, and had effects of importance during the first half of the period, that is, the English Navigation Laws. Their object was partly strategic, partly commercial, for they were intended, on the one hand, to provide England with the fleet necessary for her defence, and to make the maintenance of a rival Dutch fleet more difficult, and, on the other, to enrich English merchants engaged in maritime enterprise. They prohibited the shipping of any other nation from trading with the English colonies in America, a prohibition which, as has been mentioned already, was usual at the period for powers with colonial possessions; they enacted that certain classes of merchandise might only be brought to English ports in ships of which the owners were English, and three-fourths of the crew English also, from whatever country these goods might be imported;[2] that certain other classes of merchandise, if brought in foreign-owned ships, should be subject to duty on arrival; that all kinds of fish and of fish products (whalebone, whale-oil, &c.), unless caught and cured by English vessels, should be similarly subject to duty; and that certain other classes of goods should not be imported from any country except that of their origin. In the seventeenth and eighteenth centuries Dutch, and in the nineteenth and twentieth centuries, English and German merchants have played a large part in European commerce by creating in certain ports depots into which raw material is imported from the countries of origin and temporarily stored. Agents or buyers from different parts of the world attend the markets in these ports, see the goods themselves or samples of them, and buy, after which the goods are re-exported to their ultimate destination. In the seventeenth century the prosperity of Holland depended largely on such entrepôt trade, and the English Navigation Laws were directed partly towards ensuring that Holland should not act as the 'middleman' for any goods supplied to England, and towards capturing, if possible, some of this entrepôt trade. These regulations show the large measure of protection which governments extended to the trade of their nationals. Commercial expansion meant commercial competition with other nations, and commercial competition often meant more or less open war. And though governments refused to recognize mercantile quarrels (and they quite often refused to do so), the traders fought.

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[1] Somervell, *The British Empire*, p. 205.

[2] In connexion with these efforts to maintain a large mercantile marine

II. THE DUTCH

From the time of the declaration of Dutch independence to the end of the eighteenth century, the Dutch were the predominant mercantile power of western Europe. Their prosperity had suffered some occasional reverses; but though

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because of the great value of its seamen to the country in time of war, the fact may be remembered that naval opinion was strongly opposed to the abolition of slavery at the end of the eighteenth century. The subsidy by modern governments of commercial air services is also mainly strategic.

by the time the *Wealth of Nations*[1] was written it was definitely on the decline, it was still possible for its author to talk of them as the most important commercial power of his day. In the seventeenth century their enterprise was universally recognized. Sir Walter Raleigh pointed out that although England had many geographical advantages over Holland, the English share of the carrying trade of Europe could not be compared with that of Holland, and he believed that one of the reasons for this was the lack of skill in seamanship; the Dutch, he said, could sail their ships with one-third of the crew thought to be required for an English vessel of the same size. The Dutch depended for the livelihood of their nation on the commerce carried by their ships, 'the which, except they stir, the people starve', as an English seventeenth-century economist wrote. Throughout the century England was employing Dutchmen for enterprises which required high technical skill of any kind. Amsterdam was the Insurance and Banking centre of Europe. When an expedition had to be equipped to fight James II in Ireland, not English merchants, but a Jew of Amsterdam was the contractor for the bread-supply.

Something has already been said of the foundations on which Dutch commerce was based (see above, p. 135). England was a competitor in the eastern trade, but the English company had not the capital available to maintain such establishments in the East as the Dutch maintained, nor were they so whole-heartedly supported by the home authorities. These odds soon began to tell. The former settlements of the Portuguese in the Far East began to fall one by one into Dutch hands. Their efforts were concentrated on the area from which the trade was richest, that of the Spice Islands. English traders secured a footing here and there. Thus the first twenty-five years of the century saw the collapse of the far eastern empire of Portugal, followed by the struggle of England and Holland over its ruins. The account preserved of the first voyage of the East India Company fleet is instructive, showing vividly how militant were the commercial antagonisms of the age. It appears that the provisioning of the ships was mismanaged, with the result that supplies soon began to run rather short. The fleet fell in with a Portuguese vessel, however, with a cargo of wines, of which they relieved her, and which seems to have made up, in some degree, for the inadequacy of supplies in general. Even so, by the time the Cape of Good Hope was reached, there were 170 dead out of the crews of five ships, a fact which illustrates the extreme difficulties of long sea-voyages at a time when there was no storage for fresh foods and when the risk of scurvy was correspondingly dangerous. The fleet continued its voyage to India, but crops had failed and there was no business to be done there. Accordingly it sailed on to the Spice Islands, where it met another large Portuguese merchantman, from which there were collected, among other items, '950 packets of calicoes'.

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[1] See above, p. 146.

> 'Their Generall', we are told 'was very glad of this good help, and very thankfull to God for it, and as he told me, he was much bounden to God that had eased him of a very heavy care, and that he could not be thankfull enough to them for this blessing given him. For, saith he, He hath not only supplied my necessities to lade these ships I have; but hath given me enough as will lade as many more shippes as I have, if I had them to lade.'

From the date of the union of Spain and Portugal, Portuguese power in the East had begun to decline. It is said that the Portuguese settlements had become obnoxious to the native princes in their neighbourhood. Conversion, we are told, was made the excuse for oppression, which was a complete contrast to the beneficent influence of the earlier viceroys in the Far East. Certainly the natives were prepared to help in ejecting them. The English who made only occasional ventures into the trade of the Spice Islands and the China seas, owing to the determination with which the Dutch defended their monopoly in those parts, were forced to concentrate on the Indian trade, and in India most of the

Portuguese factories fell into English hands. In 1616 a large Portuguese fleet was defeated, and a few years later the Portuguese station at Ormuz, on the Persian Gulf, was captured. In 1629 the largest Portuguese station in India, at Hugli, was seized by the native ruler, and by the middle of the century the empire of Portugal had crumbled to pieces. By modern standards the part played by the English and the Dutch in this collapse is not a creditable one. The English were described by a Portuguese at the time as 'thieves, disturbers of States, and a people not to be permitted in a common wealth'. Commercial standards of morality in all ages are apt to be shaky. The piratical exploits of the English in Indian waters were regarded favourably enough by the directors in East India House, to whom they meant dividends ranging sometimes between 200 and 300 per cent.

The 'Portugals' were an easy proposition as compared to the Dutch. Rivalry between the Dutch and the English came to a head when a small English factory was established at Amboyna in 1627. The Dutch quickly picked a quarrel with the English merchants. The rights and wrongs of the case have never been clearly established. The Dutch alleged certain violations of commercial agreements against the English, which the English denied. Under torture the English are said to have confessed to the misdemeanours of which they were accused, and they and their Japanese servants were put to death. The probability is that there had been breaches of agreement, but that any excuse to do away with the English settlement would have served equally well. The massacre was not forgotten in England, and gave English merchants the backing of their countrymen, so that when the time came for the issue definitely to be fought out between English and Dutch in the time of the Protectorate and later, they still talked of avenging the massacre of Amboyna. Its other effect which was, in the long run, equally important, and which was the result desired by the Dutch, was finally to discourage the English from trade with the Spice Islands. The English Company thenceforward confined its operations mainly to India and Ceylon. At the time the profits to be made out of this branch of the trade were relatively small, but the small settlements maintained with difficulty by the East India Company in India through the seventeenth century were the origin of the Indian empire.

The result of the war between England and Holland in home waters left this position practically unaffected. Decisions to be enforced in the Far East had in fact to be made in the Far East, and an English or a Dutch victory in the North Sea scarcely disturbed the *status quo* in eastern waters. At the end of the century, therefore, Holland had extensive possessions in the Far East, including Java and the Moluccas —possessions whose relative value was much greater than it now is. She had also established factories in Chinese waters, and what trade existed with Japan was in her hands. During the century, the Dutch Company had not enjoyed unalloyed prosperity. The rigidity of its monopoly was in some respects deadening, and at one time individual abuses, as happened with the English Company also, considerably endangered the profits of the institution as a whole. Nevertheless, it was able throughout the period to maintain a very high average dividend, though by the end of the period its day was past, and the main currents of trade thenceforward flowed towards India and, even more, towards North America.

The Dutch had also founded a West India Company, with the object of developing trade with America and of securing a footing in the Spanish West Indies. This company had phases of success, and it looked at one time as though the Dutch would secure the possession of Brazil. They had actually obtained a footing there when the revolt of Portugal from Spain took place (1650), and after freeing themselves from Spain the Portuguese proceeded to free their South American colony from the Dutch. In North America, too, the Dutch had made a settlement. Some one with a shrewd eye for geography had founded New York; but New York passed to England, as a result of the Dutch wars, in 1667.

These wars against the Dutch, like the wars against the

French, are the constant background against which English foreign policy throughout the period shapes itself. They were not only the result of rivalry in the Far East. Eastern waters are now many months nearer than they were then. A more powerful cause was working to promote differences between them in home waters. The policy pronounced in the English Navigation Acts was aimed directly at Dutch prosperity, and was correspondingly resented. Matters came to a head at the time of the Commonwealth and for the next thirty years wars against the Dutch are a recurrent feature. The rivalry between the two countries would have been fought to a finish, had not other events intervened. With the fall of James II and the accession of William of Orange in 1688, they came under the same ruler, who directed their united energies towards defeating the French. In the wars that followed, Holland became exhausted by the great drain both on her finances and on her man-power, and she had to look on while the importance of the once relatively neglected Indian trade of Great Britain grew, and the value of her own Spice Islands began to decline. Though to the time of Adam Smith she retained in her hands the bulk of the carrying and distributing trade of Europe—it was the Napoleonic wars and the growth of steam-transport by sea that at length deprived her of this—in the East the eighteenth century saw a steady decline in her power. She could still retain a monopoly of the spice trade, and every effort was made to keep that monopoly exclusive. For many years nutmegs were limed before export to destroy their fertility and prevent their being used for seed. Yet in spite of precautions, districts outside the Dutch empire began to compete with her. Their production was, indeed, not large, and to-day the Dutch empire in the Far East may be said to supply the world with spices; but what was of far greater moment was that the relative importance of the trade in spices began steadily to decline. The men of the Middle Ages had lived, to a great extent, on salt meat through the winter. Through Lent they lived on salt fish. This diet made spices peculiarly necessary. By the eighteenth century things had changed. Religious customs had relaxed. Fresh meat began to be obtainable in winter, as roots began to be grown for winter food for cattle. Sugar, produced in the West Indies, was becoming a very large item in European imports, another fact which was significant of the changing diet of the West. In the Middle Ages it had been an expensive alternative to honey for sweetening delicacies for the rich. By the time of Adam Smith it was becoming a staple food, and this meant that the scale of the trade in it was greater than that of the spice trade, where restriction to secure the highest profits had always been the rule. The decline of the spice trade and of the commercial power of the Dutch based on it was a symptom of the rise of democratic business. Great fortunes were already to be won by selling to the masses, as well as to the few.

III. ENGLAND AND FRANCE—INDIA

As a commercial power France had many advantages, a long sea coast, facing westwards towards the New World, being one of the most obvious of them. But they were counterbalanced by considerable handicaps. Most important throughout French history has been her preoccupation with the eastern land frontier, which in the south alone, where it is formed by the mountains of Switzerland and North Italy, has adequate natural protection. The defence of this frontier has throughout modern times been France's main preoccupation. During the sixteenth century religious differences existed in France, compared to which English religious differences were almost insignificant. The struggle between Protestant and Catholic was marked not only by massacre such as that on St. Bartholomew's Day, 1572, but by continuous civil war. It was marked by a series of decrees aimed at the suppression of the Protestant Huguenots, who formed, like the Protestant element in England, in some respects the most highly skilled and vigorous mercantile force in the community, and the edicts for their expulsion gave other countries the benefit of their commercial shrewdness which France could herself ill afford to spare. Moreover, circumstances had left unbroken in France those barriers to trade which by the sixteenth century had in England already fallen, or at least were crumbling fast. There still existed a network of customs divisions throughout the country which made cross-country trade almost impossible, since it imposed the expense of a fresh tariff at almost every town. By the seventeenth century the English Guilds, where they still existed—and many of them in form exist still—had lost the right of control which had once belonged to them. In France the laws of the seventeenth century tended, if anything, to fix the hold of the guild even faster.

There were statesmen in France, as elsewhere in western Europe, who realized the importance of the theory that the wealth and prosperity of the State depended on the wealth and prosperity of its subjects. The greatest of them was the minister of Louis XIV, Colbert, untiringly ambitious for the commercial prosperity of his country, but believing that such prosperity could be won purely by the action of the State—by what might be called nowadays 'socialism', if the word did not confuse the issue, implying a similarity of circumstances between the two periods which does not exist. There were two ways in which French mercantilists hoped to secure this commercial prosperity. One was the way of Colbert, and the other was the way of his master. Colbert's way was to work for the expansion of the seaborne trade of France and the development of colonies as sources for raw material and as markets for home manufactures. Louis XIV's way was that of expansion by land, and more particularly the absorption of the Spanish Netherlands—what is now Belgium—and the port of Antwerp, and, if possible, the ports of Holland also. He hoped by this means to secure the trade which, in the seventeenth century, Holland controlled. The two schemes aimed ultimately at the same thing.

Colbert died, however, before he could put his own methods completely into operation, and Louis XIV, left to his own devices, pursued a policy of conquest which, if it had succeeded, might have given to French commerce the stimulus which he desired, but failing as it did, proved only a drain on French resources which left her virtually bankrupt. His wars secured him the rich district of Alsace, but failed to give him any great North Sea port. Instead, they led to the united opposition of England and Holland against him, and finally to Marlborough's wars (1703–9) which for the time being exhausted his country.

There had been formed, as early as 1604, a French Company, with the object of seizing a share in the trade which the British and Dutch East India Companies were successfully working. It had speedily proved unable to compete with them, largely because it worked under more strict governmental control in the details of its administration. This fact was always a severe handicap to French commercial enterprise. Control of details was carried so far in some instances that prices were fixed in Paris for purchases in India or Canada, and that sales were forbidden except under licence to be obtained from home. The policy of 'trusting the man on the spot' never found favour with French imperialists in the seventeenth and eighteenth centuries. Largely as a result of this all efforts made during the first half of the seventeenth century to create a prosperous France by creating a French commercial empire failed. With Colbert there began in the second half of the century a fresh effort. The East India Company was revived, and in addition new companies on similar lines were founded for trade in the Baltic, in the Levant, in America, and in West Africa. All these companies were granted monopolistic rights of trading in the areas for which their charters provided.

The results of French penetration in North America will be discussed in the next chapter. Apart from this there were two areas in which French imperialism during the seventeenth century secured a footing, India and the West Indies. The French East India Company had a chequered career, and a few brilliant successes are to be set off against many failures. The business of the Company was often, for years at a time, practically non-existent, and early in the eighteenth century it seemed probable that French ventures in the East had ended. Then about 1740 a number of men of exceptional ability became connected with the Company's business in India, and the results were prodigious, in spite of the restrictions exercised on them from home. If they had had the support they deserved, there might have been a French rather than a British empire in India to-day.

Both English and French had, during the 140 years after the death of Queen Elizabeth, gradually acquired 'factories' in India. These factories were trading stations through which passed the commerce from the country round about them. Some of them had been ceded by the Portuguese. Bombay had been part of the dowry of Catherine of Braganza, the Portuguese wife of Charles II, and had been handed over by him to the English Company. Other settlements were obtained after negotiation with local potentates, who with the decline in the power of the Moguls had become the real rulers of India. Up to about 1740 these settlements had little aggressive character, though no doubt there had been, as in the later days of Portuguese supremacy, instances of exploitation. The local French and English forces had been used for defence rather than aggression; this alone explains the absolute inexperience of the powers of European troops shown by native rulers after the struggle began. Europeans were still traders in India.

In 1738 a change began. It seems to have begun originally in a way which is now a familiar phase of imperialism. Before the end of the previous century a local native ruler, heavily in debt, borrowed from the French, who thereby acquired considerable influence not only over external trade, but in native politics. There was in French India at the time a brilliant statesman and intriguer, Dupleix, who saw the full possibilities offered by the opportunity, and within a few years had made himself virtually master of the interior of southern India. By judicious interference in local politics, and the backing of one claimant to a principality against another, he made the local rulers of southern India indebted to him and to his European armies for their position. The English, from their settlement at Madras, had taken part in the sport, but they had consistently backed the wrong candidate. While the French, therefore, enjoyed great favour, English influence was correspondingly reduced. In 1745, during the war with France, an English fleet tried to capture the French factory in southern India, Pondicherry, and they were repulsed, thanks partly to the help given to the French by the native rulers, while a fleet which attempted a similar feat three years later was similarly unsuccessful. Madras was captured by the French, who, when the local Indian potentate protested, routed him with a display of force. The treaty of Aix-la-Chapelle returned Madras to the English, but left the French in almost unchallenged supremacy in southern India.

It would not appear superficially that a commercial company had much concern with the internal politics of India, but this was far from being the case. Dupleix, by his skilful diplomacy, not only succeeded in making himself virtual ruler of southern India, but also was granted the revenues of a large district for the support of himself and his army. A few years later Clive was to achieve similar success in Bengal. The rule of the Mogul was ineffective, a fact which made English conquests not only possible but also to some extent necessary; and when he agreed to hand the entire revenues of Bengal over to the English in consideration of a yearly payment,[1] the arrangement was to the advantage of both parties. The Mogul secured a revenue with the guarantee of the East India Company behind it, the English collected taxes as much in excess of what they paid the Mogul as possible. The trouble was that there were not only two parties, but three, and the third party, the taxpayer, was not consulted.

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[1] The English were said to be granted the 'dewani' of Bengal, &c.

There is a famous letter written by Clive to Pitt, dated 7 January 1759, which shows what was his view of the position. He writes that he had been approached by the court at Delhi to undertake the dewani, and in the course of his letter he says:

> 'So large a sovereignity (that over the districts concerned) may possibly be an object too extensive for a mercantile Company; and it is to be feared that they are not of themselves able, without the nation's assistance, to maintain so wide a dominion. I have, therefore, presumed, Sir, to represent this matter to you . . . I leave to you to judge whether an income yearly of upwards of two millions sterling, with the possession of three provinces abounding in the most valuable productions of nature and of art, be an object deserving the public attention; and whether it be worth the nation's while to take the proper measures to secure such an acquisition—an acquisition which, under the management of so able and disinterested a minister, would prove a source of immense wealth to the Kingdom . . .'

The letter shows what were the original motives for British imperialism in India. Once British rule in India had begun to spread, its responsibilities as well as its profitableness began to be realized, and Clive himself, and, to a greater extent, Warren Hastings, were aware of the responsibilities, as well as the profits, attached to British rule.

Dupleix certainly had similar views to those of Clive, and if he had been allowed time to develop them, his expectations might have been justified. He failed to convince Paris, however, of the profits to be won by the course he had taken. Its immediate effect was to attract the energies of the company from commercial enterprise to military effort. His directors saw their dividends decreasing. His successes were not popular with them, therefore, and when opportunity offered he was dismissed, and died soon after in disgrace. He thus shared the fate of the two other great French imperialists in India.

In 1750, however, no one could have foretold his failure.

He was more powerful than any other European had ever been in Indian affairs. But the man was already in India who was to snatch his laurels from him. Clive's defence of Arcot which he had successfully occupied, and the victories won during the course of it, had the moral effect of destroying French prestige, and by 1753 French power in southern India was temporarily eclipsed. That year both Clive and Dupleix returned to Europe. Clive was welcomed by his directors who gave a banquet in his honour. Dupleix was disgraced.

After the recall of Dupleix the centre of interest in India shifts for the time to Bengal. Here, too, the French had established a factory, at Chandernagore. The day of Clive's return to Madras, in 1756, had been marked by that grim event in the history of Europe in India known as the 'Black Hole of Calcutta'. When the news of the event arrived, Clive was considered the man to deal with the situation thus created. He left at once for Bengal, where he found awaiting him a native army many times as great as the force which he could muster, and one which was stiffened by a sprinkling of French artillery. His own native allies were of doubtful trustworthiness. He had, however, some nine hundred European troops, as against, perhaps, forty or fifty French in the Viceroy's army, and it was this which decided him to fight. His victory at Plassey was decisive. Not only was the Viceroy's army completely routed, but the battle opened the way for the capture of Chandernagore from the French, and for the occupation of Bengal and the neighbouring provinces. The French still held a considerable area in southern India, but there the assertion of British sea-power turned the scales. Plassey had been fought in 1757. In 1759 Lally, the French General, was deserted by the French fleet and left entirely cut off. He was defeated next year at Wandewash, and in January 1761, Pondicherry, the French settlement in southern India, capitulated. The directors of the British East India Company were already rulers of territory several times the size of the British Isles.

IV. ENGLAND AND FRANCE—THE WEST INDIES

This was the end, so far as concerned India, of the struggle between France and England which continued throughout the eighteenth century, and which culminated in the Napoleonic wars. How the same struggle was fought out in Canada will be told in the next chapter. There was a third phase, the importance of which is sometimes forgotten owing to changes which have taken place in the last 150 years—the war between the two powers in the West Indies. At the end of the seventeenth century the population of the French West Indies was many times as great as the population of Canada. Cromwell, one of the first great English imperialists, thanks to whom Jamaica became a British possession, actually formed a plan by which the colonists in North America should abandon their settlements there and colonize Jamaica. His plan is a fair indication of the relative value which in the seventeenth century was set on the English possessions in North America and in the West Indies.

During the course of the period covered by this chapter, occasional references to the West Indian Islands turn up in English history. Though one reads of admirals—Prince Rupert and Nelson—resorting unexpectedly to the West Indies, it seems on the whole remarkable that Spanish possessions reckoned so rich should fall into the lap of England and of France, with apparently so little effort made to preserve them. The Pope in Columbus's day had divided the world, and the only two countries allowed a share were Spain and Portugal. England and France nevertheless came to possess some of the richest of the West Indian Islands, without having to fight any war specifically for them.

The story of how this happened is an interesting phase of history—a phase, however, which was sufficiently discreditable to be rapidly forgotten. The islands in question were won by that astonishing fraternity, the Buccaneers. The Buccaneers fought a series of battles spread over a hundred years for the possession of a share in the West Indies. Their exploits were crowned at the end of the seventeenth century by the expedition of Harry (later, Sir Harry) Morgan, when he crossed the Isthmus and sacked Panama.

The Buccaneers had begun, as indeed they ended, respectably. It was only their middle period which was disreputable. Early in the sixteenth century there had gathered on the coast of Yucatan a miscellaneous band of disaffected Englishmen and Frenchmen, who were determined to obtain a foothold in Central America. They were not pirates. It appears that their chief occupation was timber-cutting and ranching. They lived on the herds of wild cattle which were then still common. The word 'buccaneer' originally meant nothing more bad or bold than the eater of a kind of dried meat which these wild cattle provided. From the first, however, they were distinguished by their red shirts which it is said they dyed in blood. The Spaniards made efforts to exterminate them, but beef diet seems to have produced a lusty crew of ruffians, and they generally succeeded in giving worse than they received at the hands of Spanish forces. The Spaniards at length resorted to the expedient of destroying the herds of cattle in order to starve them out. As a result, they took to the sea and piracy. At first, small Spanish ships only were attacked, but gradually the Buccaneers became a powerful confederacy with a considerable navy at their disposal. Not only did they attack Spanish traders' ships, but they actually made descents on the Spanish ports and sacked them, holding the inhabitants up to ransom for large sums of money. It was under cover of their protection that the English and French were able to develop colonization in the West Indies, in spite of Spanish opposition.

This was the romantic period of British seamanship. It was the period of which Stevenson was thinking when he wrote in *Treasure Island* of Billy Bones and his buried pieces of eight. It is the period when Alexander Selkirk was marooned on Juan Fernandez, and gave Defoe the idea of Robinson Crusoe. Selkirk was rescued after four years' isolation by a ship which William Dampier, oddest of all the great

English seamen, was navigating. It was the period of which Gay wrote in that delightful idyll of blood and thunder, *Polly*, the sequel to the *Beggar's Opera*. The Buccaneers had, indeed, all the exciting vices which they are portrayed as having. When they got drunk, which was fortunately only possible at rare intervals, they got very drunk indeed. We are credibly informed that many of them used to die next day. Walking the plank is not a mere phrase invented by Captain Hook and his motherly desperadoes. The cruelty of the Buccaneers, like their endurance, almost passes belief. Almost always they fought against what seemed hopeless odds; almost always they won. Nothing more barbarous has been experienced in history than their sack of some of the rich and cultured centres of civilization which the Spaniards had built up in the New World. But they were naturally backed by the English merchants, who were determined to break the monopoly which Spain, like the other European States with their own colonies, claimed over trade with her West Indian possessions. In particular, the Buccaneers were eventually to be instrumental in securing the right to Britain to supply slaves to the colonies, and in this trade many Englishmen ultimately were to grow prosperous and find a respectable entry into the upper class. They were supported, too, by the Puritans of North America, who feared the Spanish Inquisition. They were supported finally by the English government, which realized that its battles were being fought for it at negligible cost, and that the real war against Spain throughout the century was not the occasional inconclusive fight in European waters, but the struggle in the Caribbean and in the Pacific, which the Buccaneers were fighting. Great Buccaneers, like Harry Morgan, therefore, they took over into their service. He ended as a Knight. He was lionized at the English Court. He won damages against an English publisher who had ventured to refer to him as an ex-pirate. He became lieutenant-governor of Jamaica, and died a member of the Governor's council. 'I prefer', he had once said, 'to remain an honest man.'

To narrate in any detail the doings of the Buccaneers would need a volume to itself. The story (as may be imagined) would be one full of exciting incident. The organization of the Confederacy was disbanded when peace came with Spain, at the end of the seventeenth century, and thenceforward those Buccaneers who continued to live by piracy were disowned, and only during war were piratical exploits (such as those rather ineffectively attempted by Dampier, and brilliantly achieved by Lord Anson, who in 1744 sailed into Plymouth Sound with literally millions worth of bullion stolen from Spanish ships in his flagship's hold) officially condoned. The colonization, both English and French, which Buccaneer support made possible, was considerable. England and France gradually acquired a number of islands which soon developed into valuable properties. Men in search of a rather more respectable form of adventure than buccaneering offered obtained the backing of London merchants, and with this financial support, went off to found settlements anywhere where hope of reasonable profits occurred. Such a man was Thomas (afterwards Sir Thomas) Warner, who, failing to establish a permanent colony on the Amazon, turned his efforts towards the islands, which, except for the three biggest, Hispaniola, Cuba, and Jamaica, were left almost untouched by the Spaniards, because their mineral wealth was small. The new vogue for tobacco, introduced by Sir Walter Raleigh, who saw it in use among the Indians and brought it home, together with that even more prosaic blessing for civilization, the potato, was offering prospects of considerable fortunes for those who could grow it successfully, and after many initial difficulties, Warner began to make money out of the crops in his new settlement of St. Kitts. He had landed there in 1624. Two years later Barbados was occupied, and an English merchant of the name of Powell sank a fortune (which, unhappily, owing to a legal dispute, he lost) in its development. Here prospects were even brighter, since Barbados lies eastwards out of the chain of the West Indian islands, and the trade winds made it inaccessible to the canoes of the Carib savages. The production of tobacco soon began to outrun the demand. This situation was met by the introduction of sugar cultivation, which began in Barbados in 1640. Sugar needed larger capital than other tropical produce. Milling had to be done while the crop was moist, which meant the employment of a large amount of labour, generally slave labour imported from Africa. It offered, also, still larger profits, and numbers of country gentlemen with some capital at their disposal emigrated from England and built up fortunes out of it.

Barbados was largely colonized by English royalists, who left the country during the era of the civil wars and Protectorate, and this gave a unique character to the communities in these islands. They were run as the English estates of the owners had been run, save that the manual labour was done mainly by negroes imported from Africa. Barbados remained, as it were, the country gentleman's colony, eminently conservative, and unruffled by the troubles on the continent of America at the time of the War of Independence. By the time of the civil wars, the value of West Indian plantations was obvious, and Cromwell sought to add to them by conquering one of the larger islands. The English, having failed to establish themselves in Hispaniola, their first objective, turned to Jamaica, which was captured, and after the usual difficulties had been surmounted by the introduction of settlers from neighbouring islands, who knew how to cope with them, Jamaica became exceedingly prosperous. Here also was produced sugar. From the molasses (a sort of treacle) obtained from this sugar, rum was distilled, and was in great favour with the Buccaneers. Every one remembers the fifteen men who drank it in such macabre surroundings in *Treasure Island*. At the end of the seventeenth century these colonies were eminently prosperous, for they supplied those commodities which Europe was beginning to buy in bulk. Chief among them was sugar, but some cotton, tobacco, and pimento (a kind of spice which was claimed by its growers to combine the gracious qualities of all the spices) were also exported.

At the beginning of the eighteenth century the production of Barbados, hitherto the most prosperous of the settlements, began to be surpassed by that of Jamaica, and by the middle of the century the French colony of San Domingo had outstripped both, at least in sugar-production. Official interest in the West Indies had been taken by France early in the seventeenth century and the efforts of Richelieu led, in 1626, to the formation of a monopolistic company, similar to those exploiting all French possessions. The islands were granted a tobacco preference, but this did very little to relieve the paralysing effect which the monopolistic control of trade produced. As with the colonies of other European States at the time, the disadvantages of the monopoly soon made smuggling rife, and this gave the Dutch an opportunity to step in and exploit the commerce of the region. As a result, the monopoly was in Colbert's time removed.

This was not enough. The French colonists were hampered by the restriction that their sugar must be sold in France, and at the end of the seventeenth century this restriction was made more obnoxious by a provision forbidding re-export, an example of mercantilist theory gone mad. In 1682 the islands produced 27 million livres of sugar, and French consumption amounted only to 20 million. Restriction had, as it was bound to have, the effect of bringing down prices for the French worker. Raw sugar in 1682 was fetching 14 francs a quintal, and in 1713 only just over 5 francs. It had, as it was also bound to have, the effects of pauperizing the colonies. Not only was their production inevitably reduced, but the amount they did produce sold for a third of its former value. As a result, the islands could buy nothing from France at all. The regulations were ultimately relaxed, and the prosperity of the French West Indies revived to a remarkable extent. Indeed, in some respects they were better off than the colonies of England. English manufacturers were anxious to retain in their own hands, in England, the profits of refining, and refineries in the English plantations were, therefore, suppressed by the imposition of an impossibly large duty on any refined sugar leaving them. A prosperous sugar-refining industry grew up in England, most profitable to the mother country, but depriving the planters of a correspondingly large source of income. Much of the sugar coming to England is still refined in the Clydeside refineries, though to a steadily increasing extent sugar ready refined in the country where it is grown is competing with their product.

It is of some interest to follow the history of the sugar-growing industry in the West Indies into the period following that with which this chapter deals. Eighteenth-century France had depended on West Indian supplies for her sugar. During the Napoleonic wars she was almost completely cut off from them, and in order to meet this situation, Napoleon introduced the cultivation of the sugar-beet into Europe. The sugar-beet came to stay, and at present much of the sugar used in Europe is beet-sugar, manufactured from beet grown in Germany, Czechoslovakia, and Poland. There is a small acreage now in England under sugar-beet, and government assistance had been given since the war to encourage its cultivation, on the grounds that it may ultimately become a profitable crop, if the handicap of foreign competition in the early stages can be surmounted.

In the West Indies there was often co-operation between England and France, not, as in India, hostility. French colonists shared with English colonists in the early development of St. Kitts, the Europeans co-operating against native attack. The plantations of each country supplied mainly the home markets, and did not compete for the markets of the rest of Europe. The colonies could not but be affected by the wars which continually involved the two rival powers in Europe and in Asia in the eighteenth century, but Napoleon's effort to make his country independent of supplies from the French West Indies is the one significant strategic move in the rivalry between England and France in the Caribbean.

V. COMMERCE IN THE SEVENTEENTH AND EIGHTEENTH CENTURIES—ITS SCALE AND EFFECTS ON ENGLISH SOCIAL HISTORY

Two hundred and fifty years ago Shakespeare's plays had been written, St. Paul's Cathedral had been built, and the great Gothic cathedrals were already ancient monuments. Harvey had discovered the circulation of the blood; Newton was already putting forward his theory of gravitation; Algebraic methods were highly developed, and the calculus was familiar to mathematicians. Many of the great English schools had been founded, and there was already a Harvard University; Oxford and Cambridge were already (so some people said) in decline. Yet there has intervened that gigantic change, the Industrial Revolution, which makes us think of the merchants of the seventeenth and eighteenth centuries as village shopkeepers, and the commerce of the period as insignificant. Actually, however, the commerce of the time was considerably greater than at first sight would appear, and had results disproportionate in importance to its size.

It was during this period that overseas trade began to adapt itself to the needs not only of the rich, but of the middle classes. Commodities brought over half the world began to come into everyday use with the ordinary person. This is a notion so familiar to us that we do not stop to think of the organization which it implies. The flour of which the bread we eat is made has come, very likely, from the United States or from Canada. The meat has come possibly from the Argentine or New Zealand, the butter from New Zealand, the fruit from Australia, Canada, or California, the coffee from Brazil. Rubber has to come from Malaya, petrol from Mexico or the United States or from Persia or Venezuela or Russia. The wood of our matchsticks grew perhaps in Scandinavia or on the shores of the White Sea. Our wants are satisfied, not by ourselves or our neighbours or compatriots alone, but by an organization, as intricate as it is extensive, which has grown up out of those wants. In the eighteenth century this was just beginning to happen. A notable example is the trade in sugar. The sugar exported from the French West Indies amounted in 1682 to 27 million livres. By 1788, it had grown to the very large total of 193 million livres. Another commodity which was reaching Europe in large quantities already was tobacco.

Throughout the nineteenth century, and well into the twentieth, Lancashire cotton held the world market. In the seventeenth and eighteenth centuries it was Indian cotton which held the market. Labour was far cheaper in the East than it was in the West, and when spinning and printing had to be done by hand, the East had an abundant advantage. Great quantities of cottons and calicoes were exported from India. Actually these were mainly not for English use, the English cloth trade being protected by high duties; but they were brought to England for re-export, partly to Europe, partly to Africa, where they were bartered for slaves. They were also taken on the merchantmen of the East India Company to the Spice Islands, and there exchanged for spices for sale in England. No figures seem to be available for the amount of cotton imported from India to Europe for consumption or re-export during this period, but it is evident that the cotton trade was very considerable.[1] From the Far East came silks. These, also, were being brought to Europe in quantities. It is said that a Spanish merchantman captured by Lord Anson on his voyage round the world contained, among its other merchandise, 180,000 pairs of silk stockings.

The most valuable element in English seaborne commerce, however, was without doubt slaves. The port of Liverpool owed the beginnings of its prosperity, as late as the eighteenth century, to the slave trade, from the control of which it began at that time to oust Bristol. By 1793 three-sevenths of the slave trade of Europe had been secured by Liverpool, and in the eleven years ending with that date 300,000 slaves, with an aggregate value of over £15 million—something like £50 a 'piece' as they were called—were shipped from Africa in Liverpool shipping. Originally this trade had been mainly in the hands of the Dutch, but when the monopoly of the West African Company was abolished in 1689, the annual export of slaves already amounted to about 20,000. The English slave-traders were constantly trying to secure the right to sell slaves to the Spanish as well as to the English West Indian colonies, and by the treaty of Utrecht, in 1713, it was arranged that English merchants should supply 4,800 slaves a year to the Spanish West Indies.

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[1] The history of the cotton industry in India does not end with the Industrial Revolution. See below, p. 358.

The figures given above will show how considerable was the overseas commerce controlled by European nations during the eighteenth century. The table given in Appendix I below sums up statistically the enormous expansion which took place during the latter part of the period. This commercial expansion was one of the factors which led to the Industrial Revolution. The same expansion and organization which was being developed in the overseas trade already affected home production. The staple English product from very early times had been wool. At the Reformation the production of wool passed from the monasteries to individual enterprise, and landowners developed further the system of enclosures, a development which continued steadily for hundreds of years. In the Middle Ages much of the English countryside had been common land, on which each inhabitant had grazing rights. The peasant was largely self-supporting, for he grew what he wanted on his share of the strips into which the arable land of the village was divided. The end of the Middle Ages marks the beginning of the end of this system. For the next three hundred years contemporary writers speak of the evil of enclosures, as villagers were gradually deprived of strip and grazing rights, and their lands became part of large estates. This meant the application of the so-called 'capitalist system'. Sheep-farming in small units was unprofitable. A single shepherd could look after a hundred sheep almost as easily as he could look after ten. The seventeenth-century middle-class squires, of whom we so constantly read in the history books, were engaged in large-scale farming at the time when the production of wool was its most profitable form—or if they were not engaged on it, their tenant farmers were. They were a producing, not a 'rentier' class; they were not, that is to say, living merely on income derived from investments. Their fortunes were intimately bound up with the state of agriculture and of the wool-trade at the moment, and they had not only a political, but a financial interest in the attitude of the government towards commerce.

That these country squires were able to take such an important part in the history of England, was due to various facts. The administrative system under Elizabeth depended largely on the country Justices of the Peace, and it thus brought out qualities of leadership. There had grown up a generation whose 'grammar-school' education had given them a sense of self-respect and self-sufficiency. They knew the worth of the sons of squires and of local merchants who had grown up with them. They controlled the purse-strings of the State, since the money which paid the taxes was theirs; and they were determined that as they had paid the piper they should have some say in calling the tune. One of the most determined struggles of the early Stuart parliaments was for the abolition of monopolies. The merchants and tradesmen, as a class, objected to the monopoly of this or that commodity being granted as a favour to a royal favourite or as a piece of commercial policy to a merchant chosen by the government. It deprived them, so they believed, of their legitimate commercial rights. They protested, had their way, and monopolies were abolished.

Throughout the struggle which followed this skirmish the kings were playing a losing game. The cost of living was rising rapidly, and that of governing a country even more rapidly. Yet their revenues were mainly drawn from fixed dues, the right to levy which was traditionally vested in the sovereign on his accession for the duration of his reign.

When Charles I came to the throne Parliament insisted on voting these annually. This meant that if Charles wanted money he must call a parliament at least once a year or raise it by other methods. 'Ship money' was a revived 'danegeld' and as a land tax it remained, though Hampden, by refusing to pay it became (and still is) a popular hero. The Roundhead motives in the civil war were undoubtedly mixed. With the economic motive was the religious motive, a sincere force with many on both sides. There were those already who took the view that political liberty was the most important end of existence.[1] The way in which the economic factor influenced the situation was by providing the wherewithal for the support of the opposition to the king.

The issue was the victory of neither party. It was Cromwell and his armies who became supreme as a result of the fight between king and parliament. Even Cromwell, however, could not entirely neglect his public, or rather those who paid his taxes, and thus was persuaded against his better judgement into a war against the Dutch (a nation whom he particularly admired) the motives of which appear to have been entirely commercial. By the time of his death English merchants already felt that the constraint under which business was carried on during the protectorate was as much of a danger as Charles I's despotism had been, while England, as a whole, found it intolerable. The Restoration followed as a natural consequence, but before very long it was evident that the middle classes had not forgotten the taste of power, and as a result of the revolution of 1688 there began the growth of a system of complete parliamentary government. The squires and the merchants had their way, and in the eighteenth century they settled down to govern the country. Parliament followed parliament in regular succession, gradually acquiring more and more control not only over politics, but over the king's prerogative. They governed in the interests of their class, which happened to be the interests of the king, and seemed to themselves (naturally enough) to be the interests of the entire country. Thus politically the period is one during which the real power passes from the monarch to the capitalist, whether he was merchant or landowner. Not till 1789 was their confidence shaken by the news of what the masses could do when they rose against their rulers.

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[1] The seventeenth century saw the birth of the modern 'liberal' conception of liberty, to which there are two sides—one, the right of the individual to free speech and freedom from undue political interference, the other the right to manage his economic affairs as he likes (however he may harm the community in the process) provided he does not violate the law of the land. There is no doubt that liberty of this kind is in some respects inequitable and that, without certain economic advantages which the upper and middle classes enjoy, 'liberty' tends, for the poor, to be an empty privilege. But while this is an excellent reason for trying to reform society in a way which will give these economic advantages to all, it is no reason for scrapping political liberty or the right of free speech. The Greek idea of freedom was something different, viz. the right of a state to regulate its own destinies, not that of the individual to lead his own life.

VI. CONCLUSION

There was still one continent of which by the beginning of the seventeenth century, the time when this chapter opens, nothing was known, and for the purpose of commerce it remained unknown, or certainly unexploited, for the whole period with which this chapter deals. As early as Mercator (second half of the sixteenth century) it was customary to mark on the map of the world the Terra Australis, or Southern Land. Vespucci (see p. 109), exploring the southern Atlantic for land, had seen South Georgia Island, and thenceforward reports of a southern continent were often made. South Africa and South America, both geographically comparable in some respects with Australia, had nevertheless important advantages which led to development. South Africa lay on the route of the East Indiamen. In recent times the opening of the Suez Canal has taken from her this advantage of position, but her development was by then assured. South America was much nearer Europe than Australia. The eastern coast of South America was on a trade route, and such ships as attempted the passage of the Straits of Magellan touched at its ports. Australia lay outside the range of the world's shipping, and for a long time, therefore, knowledge of Australia remained vague. Was it, or was it not, part of Terra Australis? The problem was solved by Cook. Any one who follows on the map the course of his three great voyages can see how determined he was to discover a new continent if it was there. He scoured the Pacific and the Indian Ocean, literally from Behring Strait to Magellan and Tristan da Cunha. He hit with unerring accuracy those few lonely rocks which are the only features of the map of the Southern Sea, from the Falkland Islands to Australia, and he satisfied himself, the Admiralty, and the British public that there was no remaining undiscovered continent.

Thus, when the *Wealth of Nations* was published, though the development of Australia had not begun, for practical purposes the possibilities of maritime discovery had been realized. During the sixteenth, seventeenth, and eighteenth centuries definite knowledge of the coasts of the continents had gradually grown. Potential trade routes had been opened up. The great changes of the nineteenth century are the consolidation of the work that had been done; the realization of the opportunities which the great navigators had revealed. One of the most remarkable features of the nineteenth century is the enormous growth in the population of the world which took place in it. Roughly speaking, stability had been the normal state of the population of the world until this extraordinary period of increase, which has already virtually come to an end. It is as though the increase had come as a kind of automatic response to the realization of the opportunities of development which the world offered, and as though once these had been exploited, a natural check occurred.

With her insular position England had unique opportunities in an age when the ocean was the only international highway. Her statesmen were not slow to realize these advantages. The general public began the century by singing the praises of the British Grenadiers, but before the middle of it they were exhorting Britannia to rule the waves.[1] It was shrewd advice, rapidly followed. By 1805 her supremacy was indeed assured. It was challenged, notably by Germany, in the years prior to 1914. But with the nineteenth century sea-routes ceased to be almost the only great commercial arteries. The interiors of the great continents began to be opened up by railways and roads. America and Africa were no longer huge, unexploited wastes with a fringe of settlers along the coasts. A web of communications began to weave itself over them. In North America the process is now practically complete. In South America and Africa it has already worked prodigious changes. The sea is still all-important to England. But most other countries are now accessible by land, whereas a hundred years ago their commercial approaches also were generally by sea, if indeed they were commercially approachable. The countries of eastern Europe were indeed crossed by a few well-defined land-routes along which commerce travelled and brought with it material civilization, but off these routes feudal conditions often persisted, as in parts of Prussia and Russia, well into the nineteenth century. The extensive sea-routes of western Europe have played a very significant part in its progress.

VII

THE EARLY HISTORY OF NORTH AMERICA TO THE WAR OF INDEPENDENCE

I. THE ENGLISH COLONIES

THE 'pearl of the British Crown' during the seventeenth and eighteenth centuries was not the mainland of North

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[1] The words of the 'British Grenadiers' may have been written before the end of the seventeenth century, and were certainly written before the death of Queen Anne. The tune of the song is traditional, and no doubt earlier than the words. The words and tune of 'Rule, Britannia' both date from the forties of the eighteenth century. Cf. Somervell, *A History for British People*, p. 595.

America, but the West Indian Islands. In the late sixteenth century some efforts had already been made, both by England and France, to form settlements in North America. With the Spaniards established in Central and South America, and commanding thereby the Straits of Magellan, there was the added interest of a possible North-west Passage to the Far East. The first European explorers of the Great Lakes were still hoping to find through them a way out to the Pacific. Many continued to regard North America as nothing more than a possible stepping-stone to the East, but there were, by the time of Queen Elizabeth, not a few who saw in it a new England—Nova Albion, as the maps of the period named it, which might be colonized with permanent settlers and thus strengthen the mother country's position by supplying her with raw materials which she could not herself grow.

Settlement in the end was effected only by amazing persistence in the face of continued failure. There were instances where more than half the population of a new settlement died during the first few winters, for food was inadequate, shelter practically non-existent, and the cold far more rigorous than that normally experienced in western Europe. The settlers whom Raleigh left in 1587, at Roanoke in Virginia, vanished, swallowed up in the darkness of a continent, and were looked for in vain when reinforcements came in following years. When at length a permanent colony was established in Virginia in 1607, it had for a long time to struggle hard, and in the winter of 1609–10 its population was reduced from something over five hundred to a bare sixty. The Indians caused immense trouble, and those who came out often had few ideas as to what place was suitable for permanent occupation. One band of French settlers chose a small island, just off the coast, which had no fresh water. Another considerable settlement was made in the marshy land at the mouth of one of the Carolina rivers, with disastrous results.

The enthusiasm with which attempt followed attempt to found permanent settlements in the face of these difficulties is surprising. The reason lay partly in the fact that London merchants had money to lend and regarded America as a promising field for speculation. When a colony was projected financiers or 'adventurers' applied to the Crown for a grant of land in America. They then financed the voyage of the settlers, and equipped the colony, and they expected in time to get a good return for their money in the form of rents paid by the colonists for the lands occupied, or from the supply of goods to them at high rates, or sometimes from the receipt of some definite fraction of their produce. When the Pilgrim Fathers set out in 1620, they were financed in this way by London merchants or 'adventurers', and one clause in the agreement made with them read as follows:

> 'The persons transported and the adventurers shall continue their joint stock and partnership together, the space of 7 years (except some unexpected impediment doe cause the whole company to agree otherwise) during which time all profit and benefits that are gott by trade, traffick, tracking, working, fishing, or any other means of any person or persons, remains still in the comone stock untill the division.'

The venture did not turn out profitably within the seven years specified. The adventurers sold out to the colonists and cut their losses. There was not the same rapid wealth to be gained by investment in North American enterprise as there was in West Indian ventures. Yet there were still to be found numbers of private individuals interested in the financing of North American colonies. It was common practice for the king to make grants of large territories in North America to his favourites or to noblemen who had done him some service. They were naturally interested in trying to persuade colonists to occupy these lands, in order to draw rents from them. Moreover, while the companies of merchants were only financially interested in the colonies allotted to them, aristocratic 'proprietors' had political interests as well. They were, indeed, almost feudal overlords in their colonies. In 1632 Lord Baltimore was granted the 'proprietary patent' of Maryland. This meant not only that he was owner of the land of the colony, but that he was virtually sovereign within its borders. Proprietors, granted land on those conditions, naturally made great efforts to colonize it. They often found that in practice, even when they succeeded in collecting colonists, the enterprise was not so lucrative as had seemed likely. The man who went as a colonist to America was generally vigorous and independent and it did not often take him long to decide that he would rather govern himself than be governed by a proprietor. In almost all the colonies representative institutions were rapidly formed, and they seem generally to have regarded it as their main function to cause the governor trouble—whether he was an ordinary constitutional governor appointed by the king, or whether he was a proprietor. The proprietors succumbed more easily to the treatment, and their rights gradually lapsed or were bought out, until by the eighteenth century most of the colonies had a governor appointed for a definite term of office by the Crown. While it lasted, the system of proprietors was a stimulus to colonization and development, and some of the most famous figures of early American history, for example, William Penn, who founded Pennsylvania in 1681, held proprietary grants of this kind.

Yet while the systems under which the new lands were divided explain to some extent how colonization came to be a commercial possibility, they do not explain how colonists were found who were prepared to leave England for the dangers of a new life in a virtually unknown country, in which the chances of death during the first few years were approximately even. Some, no doubt, went in the hope that riches could be obtained without much trouble. There was always the possibility of silver or gold being found. A cargo of mica was actually shipped from Virginia in the early days of the colony's history, under the belief that it was gold-dust. A far more powerful and far more lasting impulse to colonization came from discontent in England. This discontent had many causes. In part, it was the old agrarian trouble from which England suffered continuously for centuries, occasioned by the steady growth of sheep-farming for the

English woollen trade, and the consequent contraction of those forms of agriculture which could be made to pay by the small farmer. More important was the political and religious discontent under the Stuarts, since it gave to the colonies immigrants of a particularly robust and independent type. During two periods in English history, bad laws have given the British empire good colonists. The first was the Stuart period, when the intolerance of religious laws caused numbers of dissenters to emigrate, in order to secure freedom for the practice of their own religious beliefs. The second was the early nineteenth century, when the penalties imposed by the game-laws resulted in the deportation to Australia of a proportion of the most vigorous element in the population of the English country-side. In the Stuart period the discontent was partly religious, partly political. James I himself, on looking through the 'Geneva' bible, the translation made early in Elizabeth's reign by the champions of the English Reformation, found in the notes annexed to it 'some very partial, untrue, seditious, and savouring too much of dangerous and traitorous conceits'. When, for example, he found that the translators had commended the action of the Hebrews, who 'did not as the king of Egypt commanded', James's comment was: 'To disobey a king is not lawful. Such traitorous conceits should not go forth among the people.' It is an example of how closely religion and politics were still bound up together. Freedom in religious views meant, to some extent, freedom in political views also. The colonists were quick to show, once they had reached America, that they intended to press their claims to both.

Not all the colonies, however, of the American mainland were peopled by disaffected Puritans. Even in the Puritan colonies, though the most determined and influential members of the communities were Puritans, they were generally in the minority. In the *Mayflower* itself only 35 of the total of 102 were members of the Puritan congregation from which the enterprise had originated, and the remainder seem to have been a rough, undisciplined crowd—no doubt 'such vagrant and unnecessary persons as do commonly proffer themselves', as the authorities in Virginia complained, whereas what they wanted were 'honest sufficient artificers, as carpenters, smiths, coopers, fishermen, brickmen, and such like'. In the south slave-labour prevailed, and many of the same warm-climate crops flourished as in the West Indian islands. In the north the climate was severe, and agricultural produce was in general similar to that of England and France. During the time of the Protectorate, a number of royalist English landowners went into voluntary exile in the southern districts, and there grew up in them a society similar to that of early eighteenth-century England, based on the existence of a land-owning class of 'country gentry'. The plantations which they owned flourished mainly on the tobacco trade. From the seventeenth century, therefore, the division between south and north was marked, not merely by climatic or merely by economic features, but by different kinds of society. The planters of the south had no quarrel with the English Church, except in Maryland, which was from its foundation Roman Catholic in character. They were rich, contented, and conservative. In the north the colonists were more independent and progressive. Slavery was hardly known. This broad division between south and north was that on which the American civil war was ultimately fought (1861–5), and it is still, to some extent, marked by the division of the political parties in America, the Democrats, roughly speaking, representing the southern element, and the Republicans the northern.

Two names are conspicuous in the early history of the North American colonies, one connected with the southern colonies, one with the northern. They are the names of Captain John Smith, who has claims to be called the founder of Virginia, and of William Bradford, who led the 'Pilgrim Fathers' colony. The two were men of very different types. John Smith was still a young man—he was born in 1580—when he sailed to Virginia (1607) as one of the colonists who founded Jamestown on the Chesapeake Bay. The colony had more than its share of difficulties. The only natural commodity which could immediately be turned to profitable account was cedar-wood, the cutting and transport of which involved considerable labour. The colony arrived too late in the year to plant corn, and had to rely for a year on barter with the Indians for supplies of food. In the hot weather fever broke out, and with the Indians steadily becoming more hostile, the position seemed desperate. About this time John Smith was on a foraging expedition in the woods with two companions, when the party was ambushed and John Smith himself captured, his two companions being killed. He seemed to be doomed inevitably to the same fate, when he was saved by the intervention of Pocahontas, the daughter of the Indian chief. He succeeded in winning the Indians' confidence, returned, and a few months later was elected governor. He reorganized the defences of the colony and seems to have infused a new spirit of industry into its life. The following year his work received a setback from the arrival of 500 new settlers, who seem to have been undisciplined and unwilling, so that when Smith left for England in 1609, the prospects of the colony seemed anything but good. When a relief expedition arrived in the following spring only sixty members of the colony were still alive.

Though he never returned to Virginia after 1609, it was thanks to his work in England that the possibilities of the new colonies began to be understood. The narrative of his exploits was widely read, and his geographical observations and maps were of the greatest value. His only subsequent visit to America was in 1614, when he explored the coast of Labrador. Apart from that, he devoted his energies to explaining to his countrymen the opportunities which awaited them in the New World, and to making clear the reasons why hitherto colonization had failed. Smith did not pretend that fortunes were easily made, but urged strongly that for the man of energy and resource who found the conditions of life in the old world irksome or tyrannous, the New World offered good opportunities. A new system was soon evolved in Virginia, by which, instead of the land belonging to the company alone, it could in certain circumstances be made over to the colonists. The company was abolished in 1623, and Virginia passed into the ownership of the Crown, with an Assembly through which the colonists governed themselves, in conjunction with a governor appointed by the king.

William Bradford's aims and outlook were as different as they could have been from those of Captain John Smith. John Smith had been after adventure. William Bradford was after security—security to do the one thing he minded about, which was worshipping God; and worshipping in a way regarded by the English Church of his day as being a wrong and seditious way. John Smith was a publicist, who hoped to make England realize the chance that lay before her in the New World. Bradford's object was to maintain a religious congregation as untouched as possible by outside influences. He was born in the year of the Armada, and was as a young man a member of a Lincolnshire congregation which found its views in conflict with those of the authorities. Its members emigrated to Holland, where they found religious toleration, and maintained a struggling existence in Leyden for about ten years (1610–20). The leaders of the congregation felt, however, that even there the allurements of the world were too close, and finally a decision was taken to attempt to establish a settlement in America. It was arranged by the company which financed the voyage that a settlement should be made in the lands over which the Crown had granted rights to the Virginia Company, and in 1621 two ships left England for America with the colonists on board. Finding that one of the ships was unseaworthy, they had to put in at Plymouth, where the expedition was reorganized to be accommodated in one ship only. In September 1620 the *Mayflower* finally left Plymouth, and after a voyage of two months landfall was made near Cape Cod, in what is now Massachusetts. Though this was known to be actually outside the Virginia Company's grant, the 'Pilgrim Fathers' decided to make a settlement at the place which they called (and is still called) Plymouth.

The colony, like all others established in North America at this period, had to contend with difficulties. Luckily, however, a plague had recently devastated the Indian population and the country was almost deserted. During the first winter, disease brought on by cold and by lack of adequate food or shelter ravaged the community, so that only four of the married women were left alive, and in the early months of the spring of 1622 the colony's first governor died while at work in the fields. Bradford succeeded him and was governor thenceforward until 1657, being elected almost continually year after year.

In the early years of the settlements of New England, their religious character was clearly marked. Bradford himself was a devout Puritan, and it was not so much a democratic as an ecclesiastical form of government which arose; elders, appointed on the lines instituted by Calvin for the government of the Church, controlled not the affairs of the Church only, but the whole government of the community. This control was at times harsh. It was difficult, once the small body which exercised it had been formed, to make additions to their number. In England the 'freeholder'—the man who had land of his own—could claim the vote. In New England the vote was generally restricted to members of the religious congregation, and the great majority of the settlers, in particular those who came out, not with the original founders, but after the settlement had been established, found themselves without a say in the management of the affairs of the community.

The Puritans usually treated the natives unmercifully, in the most bloodthirsty Old Testament tradition. One or two pioneers in the New England colonies who urged a more humane treatment of the natives were for the most part regarded as a particularly dangerous menace to their fellows. It was another side of morality which the Puritans in America emphasized. They believed in restraint in all forms of pleasure, in strict observance of the Sabbath, and in uncompromising discipline in every department of life, and they secured these things mainly by emphasizing the terrors of hell which would be visited upon the ungodly. The settlements, therefore, were not in their early days homes of liberty and freedom in the modern sense of these words. But the courage of their pioneers showed how a small community, when it believed enough in the principles for which it stood, could carry them through in spite of the opposition of the authority of the State and the Church; and in this way the development of the New England communities marked a stage in the development of the democratic ideal.

The Pilgrim Fathers' settlement at Plymouth was not so prosperous as others of the new colonies. The fisheries of the New England coast were rich, and by 1625 the visit of the fishing fleet was a source of considerable profit to some settlements. Efforts were made to establish a permanent settlement in connexion with the fisheries, and in 1623 a small community was formed at Cape St. Ann. Its existence was precarious, until in 1630 a Puritan congregation in Dorchester determined to revive the fishing company. The position of Puritanism, both in England and also France, was becoming rapidly worse, and the Reverend John White, the Pastor of Dorchester, when he wrote that Protestant communities of Europe had lately been 'overwhelmed and enslaved', was not overstating the case. He urged the English Puritans 'to avoid the plague while it is foreseen, and not to tarry till it overtook them', but 'to raise a bulwark against the Kingdom of Antichrist which the Jesuits labour to rise up in all quarters of the world'. His words give some idea of the depth of feeling which in his day divided Europe into religious camps. His efforts led to the formation of a new company 'of the Massachusetts Bay, in New England', in 1629. Some one had been sent out to make such preparations as were possible, and the first settlers sailed that same year, numbering about 300, and established a colony at Salem.

It had everything in its favour. It was founded at a moment when the persecution of Puritanism was at its height, in a place where the commercial possibilities (in the form of the fisheries) had already begun to be exploited, and were well known to be considerable. The other colonies had been financed by interested merchants, and were burdened with debt. The shareholders in the Massachusetts Bay Company were the colonists themselves, and instead of being governed by a court of directors in London, they were governed by a court of directors consisting of settlers, in Salem. And though at first this court refused to admit outsiders to its privileges, it was gradually compelled to do so, since unless concessions were made, those who had grievances made their way into the interior and set up there an independent settlement for themselves. Up to the present century the history of North America had been largely influenced by the existence of a 'frontier' to the west, of country waiting for pioneers to open it up and develop it. There have always been opportunities for men who were independent or dissatisfied to seek their own fortunes. The early history of Massachusetts is no exception. The new colony could not afford to lose its most energetic and progressive elements, and so it came to terms with them. These various causes favoured Massachusetts to such a degree that by 1640, only eleven years after its foundation, its population had grown from 300 to nearly 14,000. With the other colonies, too, expansion was steadily, if not so rapidly, taking place. The population of New England in 1640 was approximately 18,000.

The century 1640–1740 saw a further steady development. From the first the New England colonies disregarded the provisions of the Navigation Acts whenever it suited them to do so. The city of Boston, Massachusetts, gradually became the centre through which American business was transacted, and its position gave rise to jealousy in England. It was easier for the Bostonians to secure a large share of American commerce because of the proximity of the Dutch on the spot now known as New York. Through this port passed cargoes, the import of which was in blatant contravention of the Navigation Acts. The English government resolved to put a stop to this as soon as possible, realizing that commercial freedom was encouraging the independent spirit of Massachusetts. In 1664 war was declared on the Dutch, New York was occupied, and after a period of uncertainty passed into the hands of the English government. One of the main inlets for American smuggling was thus stopped. But it was only a temporary check. British governors were constantly in difficulties with the State assemblies, which often refused to vote their salaries except in half-yearly instalments, in order to keep continuous check on their actions. The authorities at home gave governors, when they left for America, strict instructions as to what they might and what they might not allow, but in the face of the pressure which assemblies exercised by refusing to agree to taxation or to votes alaries, these instructions were nullified. On various occasions the situation looked threatening. The home government, during the period from 1688 to the War of Independence, had its hands full at home and in Europe, or it might well have attempted to assert its authority. The colonists, too, would not face a break until they were safe from French rivalry which was, as will later be seen, at times very dangerous. These two things help to explain why the War of Independence was not fought very much earlier.

Meanwhile not only the coast, but also the interior, was being opened up. In 1681 the Quaker, William Penn, received (in payment of a debt which the king had owed his father) the grant of a large inland tract of New England, for the state of Pennsylvania, which bears his name. Penn determined to attract settlers to his colony, even if they were not exclusively English, and a prospectus was drawn up and published in French, German, and Dutch. Numbers of foreigners, especially Germans and Swiss, were thus attracted to Pennsylvania. Foreign elements began to enter other states also, and ultimately a law was passed which gave

British nationality to all foreigners after seven years' residence in America.

The progress of the colonies is marked by a steady increase in population. In 1720 there was a white population of 339,000 in the colonies of the American mainland, in addition to the 96,000 black slaves in the southern colonies. By 1760 the white population was 1,200,000, a figure which becomes more considerable if we realize that the total population of England at the time was smaller than the population of London (with Greater London) to-day; while the number of blacks was 299,000. At the later date more than half the population of Virginia consisted of negro slaves. The colonies had developed steadily in other respects also. The first newspaper began to appear in Boston in 1704, and the press soon became a very powerful factor in the opposition to the government. The first American University, Harvard, was founded as early as 1636, while Yale and Princetown had both been founded before the War of Independence. In 1710 there was established in London a 'General Post Office for all His Majesty's Dominions', the charge for letters to New York being 4*s*. an ounce. At that time a postal service was already in operation in some of the American colonies.

These few facts are enough to suggest that by the early years of the eighteenth century the North American colonists had already begun to play a part in the economic life of the world, both as producers of goods for European use, and even more as a market for the goods which Europe could supply. The middle colonies, by 1760, were regularly exporting flour and meal to the West Indies. The New England colonies also exported largely to the West Indies, where they sent potatoes, vegetables, cattle, horses, fish, and timber, and took back in exchange large quantities of sugar and molasses. This was distilled into rum at the great distilleries which, by 1760, were already working at Boston, Philadelphia, and in other places, and the rum so produced was partly used in the colonies themselves, partly bartered with Indians in exchange for furs, which were in great demand in Europe, partly used in the African slave trade. The production of alcohol for barter with native races is one of the ugly chapters in the history of commerce, and is a chapter which is unfortunately by no means short. Besides these exports, the colonies sent to England naval stores, which, as has already been seen, were regarded as a most important element in the value of the colonies to England (see above, p. 149). They began shipbuilding on an extensive scale. In 1729 Massachusetts alone was building 150 ships a year. Though the export trade was very considerable, the value of imports from England was greater. The main item was cloth, the manufacture of which was throughout this period the basis of English prosperity. Every one of any consequence, we are told, wore not local homespun, but English cloth. The whole fabric of regulations which the English authorities, in pursuit of their 'mercantilist' policy, had imposed, was designed to secure that the colonies should import from England more than they exported to England, and that the colonies should have to pay by a regular flow of gold the balance due from the excess of their imports over their exports. This balance in 1760 amounted to approximately £2,000,000. Its payment was a very severe strain on the resources of the colonists. It meant that gold and silver were scarce, and this put difficulties in the way of commerce within the colonies themselves.[1] The regulations of the mercantile system were evaded by the colonial merchants in every town, and as soon as a determined effort looked like being made to enforce them, the revolution began. There can be no doubt, however, that in spite of all evasions, the system to some extent had functioned, and that without it the growth of American prosperity would have been even more rapid.

II. FRENCH CANADA

The growth of American prosperity was rapid enough, and the beginnings of the spirit of independence came early enough, for the break with the mother country to have occurred much sooner than it actually did. What prevented this was the danger of French invasion. So long as it was true that if the colonists rebelled successfully against England, they might have to face attacks from the French, it was to their advantage to put up with the drawbacks of the mercantile system. Until Wolfe's victory at Quebec in 1759 destroyed the French empire in America, it remained a possibility that the French might eventually become the rulers of the whole of the northern continent. Not only did they control the St. Lawrence waterway to the Great Lakes, but they claimed the whole of the Mississippi basin to Louisiana and New Orleans on the Caribbean Sea. French territory encircled the English colonies except on the ocean side.

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[1] One of the first demands which independent American governments had to meet was the demand for inflation.

But the character of the French colonies was very different from that of the British. The immense extent of territory which they claimed had a population, in 1759, of 82,000 as compared with a million and a half in the concentrated area of the British colonies. This territory was policed, but not occupied in the sense that the English colonies were occupied.

French fishermen had been the first to see the possibilities of the Newfoundland fisheries, and early in the sixteenth century French whalers had begun to operate farther south and Louisiana had been discovered. About the middle of the century Cartier sailed up the St. Lawrence and planted the standard of France in Canada. Henri IV, in 1598, appointed a *lieutenant général ès pays de Canada*. The wish appears to have been the father to the thought, however, as there were at the time no colonists left, the last attempt to settle having been already abandoned. But by giving a monopoly of the fur trade to one of his courtiers, he hoped to revive it. He was disappointed. It was not till Champlain, 'the greatest name in the history of Canada', appeared on the scene that modern Canada truly began. In 1606 he built a fort and settlement at Quebec. He explored the country south of the St. Lawrence in the direction of New York. He began the tradition of wise treatment of the Indians, which is one of the finest features of the French rule in Canada, and by taking sides in an Indian feud which was in progress he secured two important tribes as the allies of the French. For the purpose of trade this alliance was invaluable. But the French government never had much sympathy during the period with 'the man on the spot'. They were anxious to regulate development themselves, and they disbelieved in colonies in northern latitudes. Champlain's ideas of colonization were different, moreover, from those of the Commercial Company to which the exploitation of the trade of Canada had been granted. They thought that permanent settlement should be cut down to the minimum. They imagined trappers and traders scattered throughout the interior, and nothing more than that, whereas Champlain already had visions of a future nation with its capital at Quebec. Not until 1636 did he begin to persuade the French authorities to his way of thinking. He then became governor, but died three years later. His penetration into the interior and his exploration in 1615 of Huron and Ontario had shown the way for the expansion of French power in the future.

The Alleghany Mountains formed a natural boundary for the English colonies. Canada, on the other hand, had in the St. Lawrence river an excellent waterway into the interior. The English colonists lived mainly by what they grew, the French lived almost entirely on the fur trade. So they spread farther and farther afield, always trying to establish contact with more distant Indian tribes, who could supply them with what they wanted. In 1634 the first white man—Jean Nicolet—reached the Michigan country, and in 1659 two adventurous Frenchmen, exploring the country west of Lake Superior, reached a river which may have been the Mississippi. This river was certainly reached by La Salle in 1670. La Salle, incidentally, was still hoping to find a western route by way of the great lakes to China. Hudson Bay was reached overland, and about the same time another explorer penetrated to the Mississippi by way of Wisconsin. This steady expansion, in marked contrast to the more settled existence of the English colonies, was eagerly followed by the French government, and they formed the project of an empire stretching from the Gulf of St. Lawrence to the Antilles. But the lands claimed by the French were completely uninhabited, except for Indians and for a trading depot here and there. These were enough to tap the supply of furs, which was what the company desired. In the late seventeenth and early eighteenth centuries the fur trade was the only resource of the country.

French treatment of the Indian population showed at its best in missionary enterprise. Jesuit missionaries penetrated into the interior, cutting themselves off completely from communication with their countrymen. They founded, very early in the history of Canada, schools for the education of the Indian children. When the evils which almost invariably seem to accompany the contact of native races with civilization began to appear, efforts were made to counteract them by isolating the Indian natives in certain areas, where their territory would be safe from encroachment. A great controversy raged also with regard to the trade in liquor. Since the days when Ulysses gave Polyphemus wine to drink, civilized traders have realized how powerful an inducement alcohol may prove with native races. Indians were no exception, and large quantities of liquor were bartered yearly for furs, just as large quantities went across the Atlantic from the English colonies to Africa, to pay negro chiefs for slaves. The French made great efforts to prohibit the traffic, and for a time the prohibition was enforced, although it opened the road to the Dutch and English traders for whom there were no such regulations.

The effect both of the extension of the Church in Canada and of the prohibition of the trade in alcohol was damaging to the commerce of the country. 'Clericalism', that is to say, Church control, grew, and the Church was financially a costly burden, while three-cornered quarrels between governors, generals, and clergy were constantly occurring. Moreover, while the English colonies were open to the dissatisfied, those who had political or religious differences with the French government were excluded from Canada. Nothing like the development took place which occurred in the English colonies. In 1721 the population of Canada was only 25,000, and in 1759 only 82,000, less than one-fifteenth of the population of the British colonies.

Another disadvantage of the French colony was the enmity of the Iroquois Indians. This had grown up as a result, originally, of Champlain's having taken the part of other tribes, notably the Hurons, against the Iroquois, and for many years their hatred endangered the safety of individual trappers and the security of the colony as a whole. Furthermore, the feudal system of land-holding still existed in France and was naturally passed on to Canada, where it was known as the 'seigniorial' system. Grants of large estates were made to seigneurs, who then let them out to tenants on condition that certain annual dues and services were paid by the tenant to the seigneur. The dues were not burdensome, and the system had the same object and the same merits which the proprietary system had had in the English colonies, the seigneurs, like the proprietors, being at pains to secure the settlement of their estates. But it made the transfer of land from one owner to another difficult, and in a young colony, steadily developing, it is important that land should be easily transferable. The life of the pioneer is to take up new land, improve it and make it into a valuable holding, then sell it.

There has lately been discovered a pamphlet written by a Virginian gentleman in 1698, in which he speaks of forming a company 'of ten adventurers with £30 a share' to discover whether the mountain range to the west of the British colonies was passable. If only a way could be opened up through these mountains 'signal and prodigious advantage' would ensue from trade with the Indians. His work shows the contrast between the French and the British colonies. The English in 1698 were just beginning to talk of trying to penetrate the Alleghanys. The French twenty years before had already made their way deep into the interior and had discovered the Mississippi. The British colonies found themselves almost encircled by the French. Yet the French had no empire, only a claim to empire. The British colonies were prosperous and formed a solid, populous block. When the struggle came to be fought to a finish, there could, in spite of the brilliant French success in discovery and enterprise, be only one result.

British interest in Canada began with the discovery of Hudson Bay. Various plans were set on foot in the mid-seventeenth century for developing the fur trade in the land round Hudson Bay. In 1665 Prince Rupert became interested, and a ship named the *Nonsuch* was dispatched and returned four years later with a very valuable cargo of furs. In 1670 Charles II granted a charter for the Hudson Bay Company, whose objects were stated in the charter to be 'the discovery of a new passage into the South sea and the finding of some trade for furs, minerals, and other considerable commodities'. The Company was granted

> 'the sole trade and commerce of all these seas, straits, bays, rivers, lakes, creeks and sounds, in whatsoever latitude they shall be, that lie within the entrance of the straits, commonly called Hudson's Straits, together with all the lands and territories upon the countries, coasts and confines of the seas, bays, lakes, rivers, creeks and sounds aforesaid . . . and that the said land be from henceforward reckoned and reputed as one of our Plantations or colonies in America, called 'Rupert's land'

—a typical colonial charter of the time. What the Company wanted was the furs of North America. It had no interest in settlement, and encouraged it no more than did French fur-trading interests. Agricultural settlements destroyed productiveness in furs.

Trapping and trading with the Indians led the servants of the Company far afield, and exploration in Northern Canada owes much to them.[1] They brought knowledge of the great canoe-routes of Canada, by which alone the interior could be crossed. By this means, twelve years after the discoveries made by the last great French-Canadian explorer, La Verendrye, whose travels in 1738–42 opened up to the French trappers the region west of Lake Superior, between the Rivers Missouri and Saskatchewan, the Englishman Hendry, sent out by the Company from its York factory, on the Hudson Bay, eventually reached the country of the Blackfeet Indians, now the province of Alberta.

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[1] See also below, p. 316.

During the seventeenth century there was continual dispute between English and French settlers in America, largely over the district of Acadia, south of the Gulf of the St. Lawrence. The disputes dragged on into the eighteenth century, until finally a commission was appointed by the two countries to decide on the frontier. The Commission found it difficult to reach agreement and the French Governor, Daguerre, judging that sooner or later war must come, resolved to prepare for it by building a chain of forts on the Ohio, threatening the west of the British colonies. One of these forts, which after the war was named, in honour of the British Prime Minister, Pittsburgh, started its existence bearing Daguerre's name. The British colonists, many of whom by 1750 were beginning to be interested in the possibilities of western expansion, were resolved not to allow these forts to be maintained, and a small expeditionary force was formed, led by a colonel of militia from Virginia, George Washington, to attack Fort Daguerre (1754). The force was overpowered and the next year General Braddock was sent out from England. He found, as he wrote, 'a great lack of spirit in the people to forward the expedition'. Advancing through very difficult country on Fort Daguerre, he fell into an ambush of French and Indians, and was mortally wounded, and a large part of his force was destroyed. In Europe, too, the Seven Years War began without much to encourage England, but by 1759, thanks to British sea-power and British gold, which Pitt used to subsidize his ally, Frederick the Great, the tide of war turned. By a stroke of remarkable insight Pitt chose Wolfe, who was only thirty-three, to command in Canada. Though his brilliant victory before Quebec did not determine the war, when it ended Canada passed permanently into British hands.

III. THE WAR OF INDEPENDENCE

The defeat of France removed the one serious enemy of the British colonies in America. The colonies (except for the planter colonies of the south) were populated very largely by men whose ancestors had left England because they found either political or religious or economic conditions in England intolerable. Discontent, always endemic, was now growing. The mercantile system had begun to press the colonists hard, while the Board of Trade urged a more severe application of its principles. The manufacture of articles of iron and steel, for example, was strictly forbidden, and the significance of this restriction can be seen when it is realized that the country was ultimately to become the greatest steel-producing country of the world.[1]

The British government had indeed never intervened with force enough to see that these regulations were obeyed, and they were, in fact, constantly evaded. Almost all the trade between the colonies and the outside world ought by law to have passed through England. Actually, smuggling on a vast scale had made the regulations ineffective. With the end of the war against the French the government found itself with an army in America, and an army which soon had to be employed in defending the colonies against a dangerous Indian attack. They had had to borrow heavily to pay for the war, and determined to compel the American colonies to bear something of the cost. When several efforts to persuade the various colonial assemblies to vote money for this purpose had been made and had failed, the government decided to raise the money by taxation, and the notorious Stamp Act was imposed (1765). It was greeted with a storm of protest, and after a time, owing to political changes in

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[1] In 1928 the production of steel in the U.S.A. was 54 million tons
„ „ „ „ England „ 9 „
„ „ „ „ France „ 10 „
„ „ „ „ Germany „ 14 „

England, was withdrawn (1766). It was soon followed by the imposition of a series of customs duties (1767), which in their turn, as a result of opposition, were whittled down until they consisted practically of nothing more than a duty on tea. This was administered without tact, the East India Company being empowered to import tea into the colonies without paying the duty, a provision which gave the colonists cheap tea, but which seemed likely to ruin those American merchants who had on hand large stocks of tea on which duty had been paid. A more important grievance for many of the colonists was the government's decision formulated in the so-called Quebec Act, to preserve the country between the Ohio and Mississippi for fur-trapping. This step helped to unite the landed interests (as represented, for instance, by Washington himself, who was deeply concerned with the development of the west) with the mercantile interests of New York and the northern seaboard in general. The tax was maintained chiefly as a symbol of the right to tax the colonies, and hated by the colonists for that very reason. The colonies joined to oppose the mother country, and in 1775 the first battles of the revolution, Lexington and Bunker's Hill, were fought outside Boston.

Superficially, the case of the British government was strong, and on the facts of the immediate situation almost unanswerable. It had just freed the colonies from the French menace and was protecting them from the Indians. The taxes it was trying to impose, though they were clumsily planned, were not large. There was a case to be made for preserving the Ohio country in the interests of the Indians as well as of the fur trade. There was in the colonies themselves a strong party of loyalists opposed to any break with England. The case for the colonists, however, was also a strong one, and reveals not the immediate question but the ultimate issue at stake. They held that colonists were regarded by the mother country as mere commercial conveniences, and that their growth was being stifled. Numbers of Englishmen sympathized greatly with this point of view and a strong opposition party in England supported the colonists. The war from the outset was mismanaged. Washington succeeded in creating and maintaining an army in spite of the quarrels of the various colonies with each other. When in 1781 Cornwallis, the English general, was caught on the peninsula of York Town between the American army and the French fleet, the war was won for the colonies. In 1776 the 'Congress' of the colonies had drawn up a Declaration of Independence, and by the peace treaty of 1783 their independence was recognized. Many loyalists were forced by persecution to move northwards over the border into Canada, and English settlement in Canada began in this way.

As a result of the War of Independence, the nation which is to-day economically (and perhaps also politically) more important than any other in the world became a separate unit. The war paved the way for the French Revolution, for though French philosophers had long been talking about the rights of man, and those who drew up the Declaration of Independence had borrowed their phrases, it was the Americans who showed that the thing could be done in practice. Economically and commercially the war was already won before it was started. It was inconceivable that England would be able to keep down a new country, with almost limitless resources, in the position of a 'subsidiary firm'. Even in England the tide had already turned against the old system by the time the war was fought. In the nineteenth century, largely as a result of the work of Adam Smith, England was to proclaim as a policy a system which had had to be extorted from her in the eighteenth by force. Moreover, hand in hand with independence in economic life was to come independence in political life throughout the empire. The nineteenth century was to see the British Empire giving to its colonies not only self-government, which most of the American colonies had practically enjoyed, but also ultimately Dominion status, carrying with it virtually complete national freedom. An interesting example of the 'new imperialism', coming immediately after the revolt of the First British Empire, can be seen in the settlement of Canada. French Canadians were allowed their own language and their own law, to be administered within the English system of juries, and promises were already held out to them of future self-government.

VIII

THE GROWTH OF BANKING IN THE SEVENTEENTH AND EIGHTEENTH CENTURIES

In previous chapters something has been said of ancient and medieval bankers. The bankers in seventeenth-century London handled large sums of money, but their methods were in general similar to those of their medieval predecessors. The business of banker and goldsmith was generally combined, as it had been in the past, both being dealers in bullion. Until 1640 these dealers used to keep their bullion for safety in the Tower, but Charles I had then appropriated to his own use £130,000 of bullion so deposited. In spite of the lack of confidence which this caused, the banks were able to lend something over £1,000,000 to Charles II—a loan which was, incidentally, never repaid; and in the latter part of the century they regularly paid interest at a fairly high rate (6 per cent.) on deposits. A system of withdrawal by cheque had by this time begun to grow up. One of the earliest cheques known is dated 1676, and is drawn on a London goldsmith (his firm is now represented by the bankers Hoare & Co.) as follows:

Mr. Hoare

Pray pay to the bearer hereof, Mr. Witt Morgan, fifty-four pounds ten shillings and tenpence, and take his receipt for the same.

Your loving friend,
Will Hale.

54/10/10
for Mr. Richard Hoare
at the Golden Bottle in Cheapside.

This was an important advance, but one which had been foreshadowed in ancient banking practice, and something far more important was to follow it.

Early in the century a revolution in banking practice began in some continental centres (in Holland and Sweden especially) which was to make the traditional methods obsolete, and make it possible to finance the rapid growth of eighteenth-century commerce and the huge industrial developments to which this was the prelude. The origin of this change lay in the idea of 'credit'. The great financial houses of late medieval times had lent millions, but they had millions in actual bullion at their disposal. The new Bank of England, in 1694, lent a million pounds to the general public—but all its bullion it had already lent to the government for the government to pay the army. And yet somehow the trick worked. It was not invented by the sponsors of the scheme. No doubt from time immemorial bankers had been able to lend in excess of their resources from time to time. But they kept the knowledge of such ventures from their clients. In the seventeenth century the general public gradually became familiar with the idea, and as it is of paramount importance in commercial history, no excuse is needed for discussing it in some detail.

Banks are now used by society in various ways. The man who is not directly engaged in commerce has a banking account because it is convenient to do so, largely because payment by cheque is the safest form of payment he can make. The bank is for him an institution with which money can be deposited with reasonable safety, and through which the ordinary transactions of the business side of life may easily be carried out.

For those directly engaged in commerce and industry, the bank is not so much an institution with which they deposit, as one from which they borrow. Commerce would come to a standstill if it did not have this source from which to meet its temporary difficulties. The Banks in England are the most reputable of moneylenders, lending only where security is good. For this reason, and for another which will appear later, they can lend at a relatively low rate of interest, and most business men, when they can, prefer to borrow from them rather than from a moneylender with less resources. Bank loans are as necessary to commerce and industry as are other forms of 'capital'. A factory needs capital before it can be built. This will ordinarily be supplied by the formation of a company and the selling of shares. Money thus raised meets the big initial capital expenses of building and equipment. Beyond this, working capital is needed. The factory must buy raw materials. Some time will elapse between the time when the raw material is bought and the time when the first profits are realized, and it is usually through the banks that this money is borrowed.

The loan may take various forms. It may take the form of an overdraft, that is, of the bank allowing the withdrawal of money up to a certain sum although there has been no previous deposit. For making this loan the bank will naturally charge interest. Or the loan may take the form of the 'discounting' of a bill. The dealer in raw materials may make out a bill for it, to be paid after some stated interval—say three months ahead. The manufacturer then formally 'accepts' the bill by signing it or 'endorsing' it, after which the dealer may perhaps keep the bill till it matures and collect the money himself, or, more probably, he takes it to his bankers who 'discount' it for him; that is to say, they put to his credit its value, less a certain small percentage representing the cost incurred by them in collecting the money, and a small amount of interest in addition. When the banks discount bills of this kind, they are making loans to industry or commerce in just as real a sense as when they allow an overdraft.

Advances made by banks represent to a very large extent the actual creation of money. These advances to clients in their sum far exceed the amount of cash in existence, and this is possible simply because the business world has become accustomed to using bank money—paper with no intrinsic value, but representing a claim to cash which can be realized at will. In the eighteenth century and in the early nineteenth, most banks issued notes of their own which were claims to cash of this kind. At the present time the Bank of England issues notes—though as we shall see later, their status has recently somewhat changed; and in addition to notes, claims to money circulate in the form of bills or cheques. But what is most important for our present purpose is that claims to cash are in existence far in excess of actual cash. Normally holders of such claims are content not to realize them except in so far as they need to do so for the purpose of paying wages, &c. If and when, however, great numbers of claims are presented to be turned into cash, the system may suffer a temporary break-down. Banking history has been marked by a series of such break-downs, involving the bankruptcy of many banking institutions.

The history of the Bank of England's foundation illustrates the idea of credit in practice. The Bank came into being in 1694, to assist the government, which was badly in need of money. It was believed that the limit of taxation had been reached, and the Bank developed out of the scheme adopted to raise money by other methods. In the title of the Act passed, it was stated that 'certain recompenses and advantages' were to be secured 'to such persons as shall voluntarily advance the sum of fifteen hundred thousand pounds, towards the carrying on of the war against France'. Under this Act a corporation was formed, the members of which made a loan (actually £1,200,000) to the government. The government undertook to pay interest on this loan, at what would now be considered a very high rate, 8 per cent., and in addition granted certain privileges to the corporation, the two most important being the monopoly of 'joint-stock' banking, and the right to issue notes to the full amount of the government's debt. The profitable nature of this arrangement to the Bank can easily be seen. The notes were promises to pay money, and soon were regarded as equally acceptable as cash, and circulated just as cash circulated; and thus, when would-be borrowers came to the Bank for accommodation, they could be lent notes, and charged interest on the loans. The Bank must, it is true, keep some cash in hand in case users of the notes should demand to change them for cash. But the notes were regarded as 'secured' by the loan to the government. Each represented a claim to a sum lent to the government and therefore in safe hands, though it might not be immediately available. By this simple operation, at a very small cost, over a million pounds of new money had been created. A method of making the supply of the precious metals go farther was at last being put into practice.

Important social and political results followed. Seeing that the credit of the Bank depended on the credit of the government, both its shareholders and the holders of its notes became directly interested from financial motives in the continuance of the existing régime. The money issued was used by the government to fight the French, and it was unlikely that the Stuarts, in exile at the French Court, would recognize their liability for debts incurred by their opponents if they returned to power.

The Bank was to become more and more closely identified with the 'national debt', that is, with borrowings made by governments to finance wars, the cost of which could not be met out of current taxation, and it soon developed other connexions with the government. When its charter expired in 1709, the government secured several concessions on condition of renewal. The Bank agreed to make a fresh loan to the government, but the rate of interest was reduced to 6 per cent., and the government obtained the right to ask the Bank to issue exchequer bills for them. These exchequer bills, or, as they have been called since the conditions of issue were revised in 1877, Treasury bills, have ever since played an important part in the finance of the country. In form they are similar to the commercial bills which are discounted by the banks, and are one of the means by which the banks finance commerce. Treasury bills are the means by which the immediate requirements of the government are met. The flow of taxation is not even throughout the year. At certain periods large sums are coming to hand leaving a considerable surplus. At others, the government has not enough money to make the immediate payments required, and at such times Treasury bills are 'offered for sale' to raise temporarily the money needed. Financiers who have capital available and wish to invest it in short-term securities, in securities, that is, which shall be repayable in the near future, buy these Treasury bills; and the government, thanks to the excellent quality of its security, which is nothing less than the taxes of the country, need pay only a relatively small rate of interest.

It is hardly likely that so simple a method of 'making money' could fail to be tried on an extravagant scale, and indeed, the dangers accompanying expanding credit had already been illustrated fairly early in the seventeenth century by the extraordinary 'tulip boom' of 1634–7 in Amsterdam. When plenty of money is available for borrowers at cheap rates, there is likely to be speculation, and speculation is liable to take the most fantastic forms. In Holland cheap money had led to speculation in tulip bulbs. Tulips had been introduced from the Levant a hundred years before, but they now acquired a sensational popularity, and collectors were prepared to pay high prices for the rarer varieties. Their value was further enhanced by the buying of speculators who hoped to profit by the rising market, and so came a period of excited buying and selling, followed by a sudden slump and the ruin of those who had adventured most wildly. Neither in France nor in England had the lesson been understood. In France the excitement began with the exploits of a Scottish adventurer named Law, who succeeded in persuading the French authorities to sanction the foundation of a Banque Générale in Paris in 1716. At first this was a huge success. Depositors were eager to make use of its facilities, for it offered them substantial advantages; and as deposits grew, the issue of bank-notes grew larger and larger, until when the bank reached the peak of its prosperity there were notes in circulation representing something like ten times the value of the Bank's assets, and yet they were being used with complete confidence. But this expansion of credit facilities led inevitably to speculation in Paris and in London, as it had led to speculation in Amsterdam, and the public looked everywhere for opportunities for investing its newly borrowed wealth. The most grandiose of the English schemes floated was that for a South Sea Company, which was to buy from the government the right of trading with South America (a right anyhow problematical, since it would depend on how much the Spaniards were prepared to concede in the treaty of peace) at the price of taking over such portions of the government's debts as were not held by the Bank of England. In return, the Company was to be empowered to issue credit on the security of these government debts, and was to be paid a specified sum yearly by the government in return for its services, and as interest. The Company was thus designed from the first to assist the Treasury, and was launched with official support. Special arrangements were made that it might be possible for George I himself to be Governor of the Company. It built a couple of ships and sent at least one cargo to Central America—without succeeding, however, in disposing of it. Its issues of credit rapidly aggravated the mania for speculation. Dazzled by the scale on which it was planned, Law persuaded the French government to launch a similar vast scheme, known as the 'Company of the West', the object of which was to develop the wealth of the Mississippi region, recently explored by La Salle (see p. 193). The idea of the company had 'caught on', and the shares went soaring up till they were fetching forty times their subscribed value, while as excitement grew the scheme itself grew with it, till the company's privileges included not only the right of trading in the Mississippi valley, but the tobacco monopoly, the right of coining money, the monopolies of all the great overseas trading companies, and the right of collecting the government's revenues. At that point, which was reached early in 1720, the bubble burst. Law, who had been living like a monarch, became an exile. His scheme was fantastic, in that apart from its finance it had no organization whatever. But before the collapse the infectious excitement of Paris had spread to London. Companies were floated for any purpose —like the Welsh Copper Company, the shares of which sold for huge sums, though no one seemed certain whether there was copper in Wales or not. Society ladies crowded to the city to buy shares. Sir Isaac Newton held £7,000 South Sea stock, and sold out in time to leave himself a handsome profit. A bookseller, named Guy, made a fortune, and endowed with it what is now one of the greatest hospitals in the world. The Directors of the South Sea Company, blinded by Law's initial successes and unaware of his failure until too late, undertook further and further obligations, until in the summer of 1720 a reaction came with catastrophic suddenness, the price of the stock dropped till it was almost impossible to find a buyer, while the directors retired to their country seats until they were summoned to face the parliamentary inquiry into the disaster.

From this collapse the Bank of England had saved itself much more by good luck than by good management. As a result of the experience thus gained, it was decided to create the item which still appears as 'Rest' in its balance sheet, that is, a reserve set aside from profits. During the century the capital of the Bank steadily grew as the government debt to it became larger, and by 1742, when its charter was again renewed, it amounted to £9,800,000. The boom had had a sobering effect upon its growth, but in 1750 it was able actually to take over the administration of the entire national debt, and so began to occupy already somewhat the same position as the Central Banks in most countries to-day. In the country towns (though by the Bank of England's charter no other joint-stock banks might be established) private banks began to appear and their use extended rapidly. Though Holland remained throughout the century the financial centre of the world, much more financial business gradually came to be transacted in London. There was a remarkable growth, in particular, in insurance business, which was widely understood and extensively effected by the end of the century, by which time many of the insurance cases on which the law now rests had already been decided. The enormous additions made to residential London (for example, in Bloomsbury and farther west) and to the neighbouring village of Chelsea towards the end of the century are a notable testimony, both to the prosperity of the merchant and financier—he was often one and the same person—of the time, to the soundness of his taste, and to the rapid extension of his calling.

It would be possible to study the increase in the world's commerce in three phases—the first, the invention of money in ancient times, an invention which ushered in the great economic progress in the centuries following it; the second, the discovery of the gold and silver of South and Central America in the sixteenth century, and with it a notable expansion of European commerce; the third, the discovery of the method of economizing gold by the organization of a credit system. If this discovery had not been made, the finds, rich though they were, of gold in California, Australia, and the Transvaal in the nineteenth century would certainly not have supplied enough to meet the needs of trade and industry. Many think that gold is even yet not used as economically as it might be, and that one of the reasons for the great depression in world trade in the years 1930–3 was the lack of adequate supplies of money.

BOOK III

THE MODERN WORLD

IX

THE INDUSTRIAL AND MECHANICAL REVOLUTION TO THE TIME OF THE CRIMEAN WAR

I. MACHINERY, ROADS, CANALS

'THE rapidity, ease and safety', said a writer in the *Scots Magazine* in 1825, 'with which communication can now be had with every part of Britain, is one of the most striking improvements in modern times, and forms an amazing contrast to the delays, dangers and difficulties that within the recollection of many, awaited the unfortunate traveller.' Not many years before, Shelley, in his pamphlet *The Defence of Poetry* (which was published in 1819), had talked of the 'cultivation of those sciences which have enlarged the limits of the empire of man over the external world', which cultivation 'may for the want of the poetical faculty, proportionally circumscribe those of the internal world; and man, having enslaved the elements, remains, himself, a slave'. Each of these writers might have been referring as easily to the progress of the last two decades as to the opening of the nineteenth century. And indeed, the invention of the internal combustion engine is as much part of the Industrial Revolution as was the invention of the steam engine; the development of international air traffic as much part of it as the development of the English canal system; the growth of broadcasting as much part of it as the inauguration of the penny post. The Industrial Revolution does not merely mean the creation of a more efficient, more mechanical production; it includes the growth of the factory system, the application of large-scale methods to agriculture; it includes the spread of communications, increased rapidity of transport, new facilities for personal and business correspondence, the perfection of methods by which perishable goods can be transported from one hemisphere to the other without deteriorating on the way; while the growth of its markets is an important factor in foreign politics, so that its effects are not merely national but international also.

In the mid-eighteenth century the English country-side had already for a long time been in process of social change, that process which had begun with the dissolution of the monasteries. The most noteworthy feature of this change was the replacement of small landowners by tenants, whose farms were held on leases from the great landowners. It was indeed said as late as 1737 that 'of the freeholders of Britain, there are more in extent and richer than in any other country in Europe'. But already by that time the factors which led to the extinction of this freeholding class had been for a long time making themselves felt. Money made in commerce was being invested in land. Every opportunity which occurred of buying land was seized by speculators who knew that they could readily dispose of their purchase to merchants anxious to secure the status of 'country gentleman', merchants whose money had been made in the city or in the East or West India trade. In this respect the position in England contrasted with that in France and Germany. On the Continent the aristocracy remained exclusive, in England it steadily absorbed the mercantile classes. Once a family became wealthy, the way was open for its preferment; by investing in a country property it not only gave itself the necessary mark of distinction and of permanence, but it might also secure rights to send its sons to Parliament, and so ultimately secure a title. The history of the Pitt family is an interesting instance. The foundations of the family fortune were laid by 'Diamond' Pitt (1653–1726) who started his career as an interloper invading the monopoly of the East India Company. He was successful, entered the Company, made a fortune, and when he ultimately returned to England, invested it in land. On one of the Pitt estates was the borough of Old Sarum, which meant a seat in the House of Commons at their disposal; and Diamond Pitt's grandson became Earl of Chatham. This sequence could be paralleled by many others in the same century.

Though the disappearance of the freehold farmer was a social calamity, it no doubt increased the efficiency of English agriculture, and the unprofitable character of small farming was no doubt partly to blame for the extinction of the class of small farmer. For it was at this period that agriculture began, thanks to the application of large-scale methods and scientific improvements, to show very great progress. The enclosure of the English country-side had already begun (see above, p. 141), but towards the end of the eighteenth century its pace was greatly accelerated. The traveller in 1750 might still see many villages where the land was cultivated on the old strip system, and where the villagers depended for part of their livelihood on common rights. Available figures show that the process of enclosure was greatly accelerated in the period 1760–1843 as compared with the previous fifty years. And as the size of farms grew, so cultivation improved yearly. Scientific cattle-breeding was one new development. In 1700 the average weight of a carcass of black cattle was estimated at 370 lb., of a sheep, at 80 lb. In 1786 estimates were 840 and 100 lb. respectively. There had been improvements in particular in the fleece of sheep. New agricultural implements were being put into use. One of the simplest as well as the most effective had been Tull's mechanical drill for sowing, introduced at the beginning of the century. The cultivation of turnips and clover, and the invention of the 'Norfolk four years' course' of turnips, barley, clover (or clover and rye grass), and wheat were revolutionizing agricultural methods. These improvements were adopted by the ordinary farmer slowly. Some observers in the thirties of the eighteenth century remarked on the astonishing progress made by agriculture, while Arthur Young, at the end of it, still came across farms where the old out-of-date methods were used, and urged that putting up rents would be the only effective method of making the farmer get the best out of his land. A traveller who knew the English country-side and who came back to it after half a century, in

1770 or 1780, would have noticed, then, that the number of owner-farmers was far fewer than it had been, that villages run on the old lines were disappearing, and that superficially the results of these changes were a great improvement in English agriculture as a whole. But as he passed through the villages he might easily have heard the complaints of those who had been compelled by economic pressure to vacate their small holdings and became labourers on others' estates. He might have noticed, too, a considerable growth in the size of towns. Bristol, which at this time was the second largest town in England, had grown in the period between 1685 and 1760 from some 30,000 to 100,000. In the northern area where coarse woollen cloths were produced, and in the midland towns which manufactured pottery and hardware, the growth was even more astonishing. During these seventy-five years Sheffield had increased in size sevenfold (it was now about 30,000), Liverpool, tenfold (now 40,000), Manchester, five-fold (now 30,000), Birmingham sevenfold (now 30,000). This was an indication of the progress of the mercantile interests in general. England had, in her American colonies, very considerable customers whose increasing wants meant excellent business for manufacturers and merchants. The 'nation of shopkeepers' was already coming into existence.[1]

But while the appearance of the country-side was changing, mechanical developments in 1760 had hardly yet begun. Manufactures were still being produced by very much the same methods by which they had been produced a hundred years or so before. Factories were as yet almost unknown. Machines, save for such 'machines' as had been known for generations, had not begun to affect production to any marked degree. The manufacturer was still a manufacturer in the literal sense of the term; he worked by hand, and such plant as he used he possessed outright and housed in his own cottage. Round it lay his holding of a few acres, from which was produced most of the food he ate, and outside its door might

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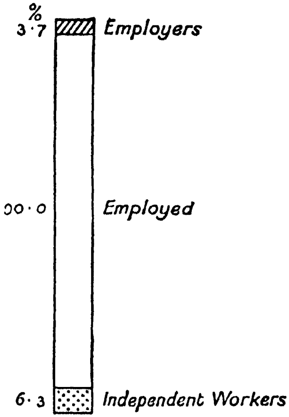
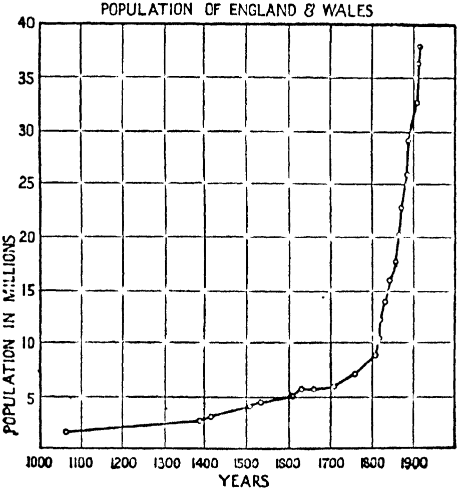
[1] For the growth of commerce in the period generally reckoned as before the Industrial Revolution, see the table in Appendix I below.



IV A. England and Wales, 1921. Occupied population classified by Industrial Status. An attempt has recently been made to construct a similar diagram from Gregory King's figures (for which see Slater, *Modern England*, p. 592) for the end of the XVIIth century. It was estimated that 'employers' numbered then 264,000, 'employees' 618,000, 'independents' 950,000. These figures are too doubtful, and conditions too different, for the comparison to be pressed very far—but there is no doubt about the general truth it illustrates.



IV B. The enormous growth of population after 1800 was predominantly urban. In addition to the obvious social effects of an expanding population, its value as an increasing market should be remembered. See p. 243 for Malthus' theories on the reasons for this increase in population. Malthus never envisaged a situation of 'over-production' of food and other goods such has recently arisen.

always be seen hanging a newly manufactured piece of cloth, a 'kersey' or 'shalloon'. Defoe, describing such a community at the beginning of the century, wrote: "The houses are full of lusty fellows, some at the dye vat, some at the looms, others dressing the cloth; the women or children carding or spinning, being all employed from the youngest to the oldest. . . . Not a beggar to be seen nor an idle person.' The manufacturer generally took his own goods to market in the nearest market town. His was an almost wholly independent life. Weavers sometimes bought the yarn outright and sold the manufactured cloth, though sometimes they were supplied with yarn by factors who took the finished cloth from them and paid them the difference. In the second instance, the dependence of the worker on capital was beginning.

In such a system the manufacturing areas were naturally those where food was most easily and readily obtainable, and in particular the agricultural south of England. Bristol was the port which served the prosperous south-west, and the next town in size after it was Norwich. The chief manufacture was still that of woollen cloth, and at the beginning of the century woollen goods represented no less than a quarter of our whole export trade. There were three districts in which this manufacture predominated. One was in south-east England—from Norwich and Colchester to Maidstone and Canterbury. Here it had received a considerable accession of strength in the sixteenth century from Flemish immigrants, driven from the Netherlands by Spanish persecution. The second was the south-west—a district roughly bounded by the line Witney–Cirencester–Bristol–Sherborne, 'a country', as we are told by a contemporary writer, 'full of rivers and towns and infinitely populous', and one the products of which were worn by 'all the persons of fashion in England'. The third district was the West Riding of Yorkshire, where worsted and the coarser cloths were produced. Other manufactures, too, were located mainly in the south of England. Most of the iron produced came from the weald of Sussex. The railings outside St. Paul's Cathedral, for example (a very considerable contract for the time, since the cost was £11,000), were cast at Lamberhurst in Sussex, and Sussex had some ten furnaces as against six each in Gloucester, Shropshire, and Yorkshire. In 1737 we still imported rather more iron than we produced ourselves; but by 1760 the industry was beginning to feel the first promptings of the revolution which was soon to transform it so rapidly, since in 1755 iron and coal works were established at Merthyr Tydvil, in Wales, and in 1765 Watt invented the steam engine, which was quickly adopted in the mining industry for pumping.[1] The cotton trade, too, though still small, was beginning to grow. In 1751 the value of the exports of cotton was approximately £46,000, while thirteen years later it was just on £200,000. Though still only about a twentieth of the woollen exports in point of value, it was a rising industry.

One further symptom of the coming change might have been noticed in 1760. Communications had begun to improve. They were still indeed in many places execrably bad, and until they improved there was very little possibility of expanding markets. On a royal journey to Petworth, in Sussex, made in 1703, the last nine miles took six hours owing to the state of the roads, and the 'nimble boors of Sussex' had frequently 'to poise the coach or support it on their shoulders, from Godalming almost to Petworth'. Three-quarters of a century later Arthur Young, travelling along 'that infernal road' between Preston and Wigan, found ruts four feet deep. But the construction of canals, which were to play such an important part in the Industrial Revolution, had begun. In 1755 eleven miles of canal had been opened near Liverpool. These were indeed only beginnings. Life was unhurried and lacking in complexity. Much of what each family needed it produced for itself, both food and clothing—though that 'pernicious commodity', tea, had already begun to find its way from India and China into the ordinary labourer's house. Though labourer and manufacturer were not wealthy, their position was more secure than it has been since, and it is a remarkable fact that in spite of the rise in prices which was to take place, labourers in some districts (in Suffolk and Essex, for example) were actually getting higher wages paid them in 1750 than their descendants earned a century later.

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[1] Watt's engine (which had, of course, many predecessors of various types) was, with its introduction of the 'separate condenser', a landmark in mechanical history, though in many ways it remained relatively primitive.

'Everything wears the face of dispatch; dispatch which is the very life and soul of business becomes daily more attainable.' The words, written in 1767, are characteristic of the new age then beginning. New facilities such as the canals were being provided for the transport of merchandise. Travel was becoming more rapid and production was developing with astonishing speed and efficiency, while in the textile and heavy industries, to which Great Britain owed her predominant position in the nineteenth century, remarkable changes began.

In the early eighteenth century almost all the fine cotton fabric used in Europe came from the East, in particular from India, where the dexterity of the workers enabled extraordinarily delicate work to be done. Some cotton was manufactured in England, and a great quantity of woollen cloth. The first event which marked the speeding-up of the process of this manufacture was the invention of the flying shuttle in 1733. In the production of cloth there are two operations: the spinning of the thread and the weaving of the spun thread into a piece. The flying shuttle was a weaving invention, the effect of which was that the thread did not have to be passed from front to back of the piece, by hand. The capacity of the weaver accordingly began far to outrun that of the spinner, and the following twenty years were marked by continuous experiment with a view to improving the spinning process. Working on the basis of a machine invented by Lewis Paul in 1738, Hargreaves succeeded in producing a jenny, by means of which one worker could spin a number of threads at once, and in 1768 a 'frame' for spinning a number of threads was produced in which the power was supplied either by a horse turning the wheel, or, later, by water. The best points of these two inventions were combined by Compton in his 'mule' (1779).

The last thirty years of the eighteenth century were years of remarkable prosperity for spinners and weavers. 'Old barns, cart-houses, outbuildings were repaired, windows broken through the old blank walls, all fitted up for loom shops; new weavers' cottages with loom shops arose in every direction, every family bringing home weekly from 40 to 120 shillings.' But the period during which cottage industry 'boomed' in this way was comparatively short. In 1785 the power loom was invented, weaving cloth entirely by machinery, and though the invention took some years to perfect, in 1800 it was already beginning to be widely used. The mills tended at first to concentrate where water power was available, but once Watt's steam engine had been applied to the driving of cotton mills, the industry no longer depended on water power. The power loom did not, of course, instantly oust the hand weaver. In 1834 there were still nearly 50,000 hand-loom weavers in Scotland, and there were possibly three or four times that number still in England. If that is so, approximately half the workers in the cotton industry at that date were still using the old method; but their production was a mere fraction of the whole. Meanwhile, if the cotton weaver was producing goods at a rate which could hardly have been credited fifty years before, he had lost much of what made life worth living for him. In 1806 Blake called the mills 'dark' and 'satanic'. The generation 1790–1820 was that during which the critical change took place. In 1790 the cotton worker was as well off as he had ever been. In the next thirty years his production increased at a mad pace, he found himself surrounded by new cottages built with little provision for health or comfort, and for employment he was put at the mercy of the mill owner. This was also the period of one of the greatest wars in history. The misery which this revolution brought with it can thus be imagined.

It was not the cotton industry alone which was affected by the new 'dispatch'. In the first half of the eighteenth century the iron industry of England had seemed likely to dwindle, owing to the shortage of charcoal, the only fuel which was then usable for smelting. Many experiments were made with a view to the use of coal, and ultimately the Darbys of Coalbrookdale succeeded, by increasing the size and in particular the blast of the furnaces, in producing pig-iron—then a new product—using coke fuel. The output of the older type of furnace had been something like five tons a week; in 1760 the Coalbrookdale furnaces were producing forty tons a week. Unfortunately pig-iron, though hard, was brittle, but in 1783 the 'puddling' method was introduced by which the carbon could be burnt out of it, and a malleable substance produced. Thus the demand for coal grew rapidly as it was put to new uses. In 1800 something like 16,000,000 tons of coal a year were being produced, and in the following fifteen years there was a further sharp increase of production due to the demand for coal for power purposes and for gas lighting. The period 1760–1800 included also the working years of the great potter Josiah Wedgwood, a characteristic figure in yet another industry. He established his factory at Burslem, and made a great name for its wares, decorated in the classic style imitated from the finds of ancient pottery in Etruria. His great interest in the development of means of transport, and in particular canals, is typical of the industrialist of the period.

The building of canals and roads was, in fact, one of the most important achievements of this phase of the revolution. The canals were made for the transport both of goods and of passengers. On the Duke of Bridgewater's canal from Manchester to Warrington in 1774 there were two packet boats towed, one holding 120, the other 80 passengers. Each boat had a 'coffee room at the head, from which wines &c. are sold by the captain's wife. Next to this is the first cabin, which is 2*s.* 6*d.*; the second cabin is 1*s.* 6*d.*; and the third cabin 1*s.* for the passage.' If one can credit the advertisements of the canals, the journey was very rapid; four-mile stages (it is claimed of one canal in 1831) were done in from twenty-one to twenty-five minutes; 'in fact the boats are drawn through the narrow and shallow canal at a velocity which many celebrated engineers had demonstrated, and which the public believed, to be impossible.' At the end of the canal age (which was terminated by the development of railway transport about 1830) a foreign traveller in England commented on the achievement which 'within the short space of half a century had linked up opposite seas; river basins separated by numberless chains of hills and mountains; opulent ports; industrious towns; fertile plains and inexhaustible mines—a system more than 1,000 leagues in length upon a area not equal to one fourth of France.' At last the movement of heavy goods—coal, for example, or machine castings—across country began to be possible.[1] In the boom many canals were constructed which failed to pay, but many were exceedingly prosperous. In 1825 the dividend on the shares of the Trent and Mersey canal was 75 per cent, plus a bonus, and several of the midland canals that year paid 30 or 40 per cent.

At the same time the road system was improving. The roads were constructed largely on the 'turnpike' system, that is, strips of road were taken over by trusts, repaired and maintained, in return for the right to levy tolls, though from 1804 onwards contributions from county rates began to play a considerable part. The system multiplied authorities, but this defect began gradually to be remedied. The roads thus built were the wonder of foreign observers. In 1825 the mail is recorded as having reached Edinburgh from London (390 miles) in 45 hours. The era of coaches, like that of canals, was brought to an abrupt end by the advent of the railway; but while it lasted—for something over a generation—it was held to be, and certainly was, a brilliant advance on the slow methods of the preceding centuries. Travel became possible, indeed, at rates which had been unknown since the collapse of the Roman empire.

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[1] At the same time heavy industry was for a long time naturally attracted to the coal-producing areas, and it is only with the most modern methods of power production and distribution that this bond has to some extent been broken.

The first phase of the revolution had thus brought with it a complete change in the economy of England. From 1800 onwards the cotton goods of Great Britain, rather than her wool, formed the basis of her economic prosperity. It had given yet a further impulse to urbanization, and though the estimate of a writer of the late eighteenth century, who claims that 'the half of the nation be found in towns', is no doubt exaggerated, it is instructive to compare it with an estimate drawn up not quite a hundred years before, in 1696, which places the number of town-dwellers at no more than 1,400,000 out of a total population of 5,500,000.

During this period we hear surprisingly few complaints against housing conditions in the new towns, or the conditions of labour in the new factories. Superficially, indeed, England was very prosperous, and the country shared abundantly in the profits of the manufacturers in the towns which provided an excellent market for farm produce. But there is an increasing volume of protest against the introduction of machinery: the protest of the unemployed against what they regarded as the cause of their unemployment. Kay's flying shuttle, as early as 1733, had caused discontent among the weavers who believed that its invention would lead to unemployment. With the invention of the power loom the problem became more serious, and it was still further exaggerated by the Napoleonic wars. The smaller markets, the Brazils, Portugal, and Sicily, were overstocked with English goods; the Orders in Council had given offence to the United States, and this led to war, and with it the shutting of another market in 1812; continental ports were almost entirely closed to us. Though the extent of smuggling was great, and Napoleon's armies are said to have been clothed in British cloth, the results of the boycott were serious enough. There came widespread unemployment and with it the smashing of machines. The machine-smashing movement reached serious dimensions in the winter of 1811–12, and was the more dangerous because it had a considerable amount of popular support. In one place a group of rioters were shot down by the soldiers at the request of a threatened employer, who afterwards was murdered, and the agitation was only suppressed by a mass trial, which resulted in many sentences of death and deportation. One feature of the unemployment was particularly galling to the sufferers, namely, that grown men were thrown out of employment by children. 'In 1800, a good hand weaver 25 to 30 years of age would weave two pieces of shirting per week, each 24 yards long. In 1823, a steam loom weaver of fifteen years of age attending two looms, would weave seven similar pieces in a week. In 1826, the same person would weave twelve pieces in a week. In 1833, a steam loom weaver 15–20 years of age, assisted by a girl of twelve attending to four looms, would weave eighteen similar pieces.' Nor was twelve the lowest limit of employment. Lord Shaftesbury, speaking in the House of Commons in 1842, described the work of children, seven, six, five, even four years old, in the coal mines. 'About Halifax . . . children are sometimes brought to the pits at the age of six and were taken out of their beds at four o'clock'—in many districts girls as well as boys were thus employed.'

There were, moreover, considerable objections to the system of poor law relief which had arisen to alleviate the distress. In 1795 the Berkshire magistrates meeting at Speenhamland decided to pay relief to agricultural labourers whose wages were inadequate for their support. The relief was paid in proportion to the size of the family. Thus the large farmer was subsidized out of the rates. Parish authorities were allowed to apprentice orphans and deserted children—'permanent children' as distinct from 'ins and outs'—elsewhere. It was a common practice to apprentice these children in large numbers to mill owners hundreds of miles away, in order to relieve the burden on the rates.

It is easy to exaggerate the extent of the industrialization of England in the period 1750–1820, but difficult to exaggerate its effects, either with reference to England's position in relation to Europe, or with reference to the social structure of the nation. Much of the machinery which was being installed was nothing more than crude wooden appliances. The production of coal, which in 1913 reached the total of 280 million tons a year, was under 20 million tons. The growth of industrial areas was only in its initial stages. It remains true, however, that the pace of production in almost every industry had been immensely accelerated, and that the process left England for the time being almost without competitors in the markets of the world. Her prosperity produced the wealth which won the Napoleonic wars. If it had not been for this prosperity, she would have been exhausted long before the war ended, since she not only financed her own efforts but subsidized those of her allies. From a long period of general confusion such as that of either of the great wars of the past 150 years, it is practically inevitable that the country with the greatest economic resources should emerge with enhanced prestige. Napoleon's plan of ruining England by ruining her overseas commerce was based on the realization of what that meant to her. This plan, carried out with the promulgation of the Berlin decrees from 1806 onwards, came perilously near success. Napoleon's attempt to shut all the ports of western Europe to British commerce involved him in the task of subjugating the whole of western Europe, and ultimately of subjugating Russia also. He needed British goods for the equipment of his own armies, and was forced, therefore, to connive at some smuggling. Moreover, the British invasion of the Peninsula, besides being a strain on his military resources, was also a breach of the barrier which he had attempted to erect against British trade, and through the Peninsula itself, and also through the ports of the Adriatic and by way of Heligoland and the north German ports, British goods kept coming into Europe. To be cut off from British manufactures meant serious loss for many of the countries involved, and when the British government retaliated with Orders in Council, declaring excluding ports to be in a state of blockade, the effect was little less than disastrous.

Several interesting points are made clear from this economic war. The most important is the main direction which British commerce took at the period. Britain was the manufacturer and the middleman for Europe, and the markets of Europe were of great importance to her. We have seen that up to the time of the War of Independence, the American colonies had been England's most important market, and that this market had been guarded for her by various regulations—the enforcement of which, when they were becoming burdensome, was one of the causes of the War of Independence. Fortunately for British manufacturers, new opportunities were at that time already beginning to present themselves. 'It is lucky', some one writes in 1776, 'that there are such demands in the North that manufacturers are all employed in sending to Russia, Sweden, &c. more than ever was demanded—so that the stop of the American trade is not felt.' Having lost the customers whom she could compel to buy her goods, England had to look elsewhere; and it was to Europe, largely to Scandinavia, that she looked. This meant that she had an entirely new interest in European affairs. She had been used in the past to fighting European commercial rivals. She had fought and beaten the Dutch and the French. She now had a particular interest in keeping on the 'right side' of her new customers, for even in the eighteenth century industrial and commercial development in England was unparalleled elsewhere, and England was already gaining the lead which put her fifty years ahead of the rest of Europe. Yet this dependence on foreign—as opposed to imperial—markets had a number of drawbacks. It meant that if a single power established a really powerful European block against her she could be brought to her knees. Napoleon saw this, when he attempted by the Berlin and Milan decrees to shut all the ports of Europe to British shipping and British goods. His failure was due to two things, the first that British manufactures had established themselves so firmly that it was exceedingly difficult to do without them, and that as a consequence there was widespread evasion of the decrees in question, and finally even Napoleon's own nominees refused to carry them out; the second, that the Peninsular war opened at least one door to British goods. Moreover, in England the war itself provided, as wars always do, considerable employment. But Napoleon's continental decrees hit the English manufacturer hard, and up to the time of the Moscow campaign it was still doubtful whether they might not be successful in breaking England's power.

A measure of great significance to British commerce passed during the war was the abolition of the slave trade (1807). Slaves had been among the most important merchandise carried by British shipping (see above, p. 172). Henceforward they disappear from western commerce, and with the abolition of slavery in the British Dominions (one of the measures of the Reformed Parliament in 1833, and a measure which cost the Government £20 million in compensation) a blot was erased from the pages of British commerce.

II. RAILWAYS, STEAMSHIPS

The next phase in the industrialization of Britain is that marked by the laying down of the railway system. Not till that began did the depression which had followed hard on the heels of the making of peace begin to be relieved. In the discussion of the first plans to apply steam power to railway haulage many proposed that a series of stationary engines should be provided along the line and that the truck-loads of goods should thus be hauled by cables. A steam carriage had been constructed in Paris in 1769. In England Trevithick had built a locomotive and exhibited it as early as 1803, and Stephenson built the *Blücher* in 1814. In 1825 the Stockton–Darlington railway was opened; but even that did not convince the opponents of the 'loco-motive' and adherents of the stationary engine, and stationary engines with cables were proposed for the Manchester–Liverpool railway when that was being discussed in 1828. Thanks, however, to the energetic advocacy of Stephenson, it was decided that locomotives should be employed, and a competition was inaugurated for the best locomotive for the purpose. When the railroad was opened, Stephenson's *Rocket* hauled coaches at thirty-five miles an hour, and the principle for which he stood was thereby triumphantly vindicated. In the following years railways began to be constructed in many parts of the country, but most of these were very short as originally planned. The companies had to face continued opposition from the local authorities. The railway was not permitted to come nearer to Eton than Slough, and 'when it came to Windsor it was compelled to provide policemen to patrol the line to keep the boys away'. Until landlords discovered how profitable it could be to sell land at exorbitant prices to the railways, they obstructed them by every means in their power. In the Bill authorizing the construction of a railway from Newcastle to Carlisle, in 1829, the use of stationary engines (locomotives were altogether prohibited on this line) was forbidden 'within view of the Castle of Naworth or Corby Castle or of the several mansion houses' of other gentlemen mentioned. The councils prevented in many towns the advent of the railway, only to find themselves stranded on a side line when the main-line systems had been constructed. Nevertheless construction proceeded steadily, a new epoch being marked by the opening of the London-Birmingham railway in 1838, with its continuation to Preston. By that date about 500 miles of railway was already open in this country. Many of the lines opened were financially unsuccessful, but the public imagination had been caught, and in the years 1836–7 Bills passed Parliament authorizing the construction of another 1,000 miles. The term 'navigator', which had been originally used for the labourers employed on constructing canals, now passed to those working on the railways. The skilled 'navvy' commanded a high wage, and clad, no doubt, in his velveteen square coat and scarlet plush waistcoat with little black spots (as he is described by Samuel Smiles) and assisted by gangs of unskilled labourers—Irishmen very often, who were the terror of the country-side—he laid mile after mile of road. Towards the end of the decade 1830–40 work was completed on the first of the great tunnels, and by 1841 it was possible to reach Glasgow from London within 24 hours, travelling part of the way by steamboat. 'What more can any reasonable man want?' asked a contemporary writer. The same question had been asked nearly twenty years before, when the London-Edinburgh coach did the journey in 45 hours. It has been asked scores of times since, and is still followed by apparently inconclusive answers.

During the next few years construction steadily progressed, though there was a lull in the rush of railway Bills through Parliament. In 1845 it suddenly began again with redoubled vigour. In 1844 nearly 800 miles of new line—a third of the entire mileage so far constructed—was authorized. Railway shares began to sell like wildfire. Speculators hardly troubled to examine the bona fides of the promoters. At one time there were five lines in contemplation from London to Brighton, and the shares of each of them, at one time or another, stood at a premium. 'The British public will bear anything; they are so busy speculating in railway shares,' wrote Disraeli in 1845. But the peak of the boom had not yet been reached. In the following year plans of new railways kept pouring in to the offices of the Board of Trade, to await parliamentary authorization. It was announced that all Bills for the winter session must be deposited by 30 November, and the Board intimated that their office would be open till midnight, and that they would accept plans which passed the outer door before that hour. 'As the porter was closing the door, a carriage dashed up drawn by four foaming horses, the door was forced open and a scrimmage ensued as the plans were thrown in and thrown out again.'[1] The construction of 4,548 miles of railway was authorized at this time; many of the schemes for railways formed during those years were abandoned after parliamentary authorization had been received, and railway speculation, coupled with the demands of farmers for loans to tide them over the bad harvests of 1845 and 1846, led to the financial crisis of 1847, and the suspension of the Bank Act (see below p. 299).

The steamboat as a commercial proposition had appeared earlier than the locomotive, but it took longer to establish itself. Much of the pioneer work was done, not in England,

[1] Slater, *Growth of Modern England*, p. 343.

but in the U.S.A. (see p. 303). The first steamboat actually put into public service in the British Isles was the *Charlotte Dundas*, on the Forth–Clyde Canal (1802), but she was not successful, since her wash damaged the canal bank, and she was therefore discontinued. Ten years later Clyde-built steamers were running both on the Clyde and the Thames. In 1819 an American-built boat crossed the Atlantic, partly relying on steam; and at this time America was the centre of ship-building industry as a whole, steamships being built of the same materials and in the same yards as the famous clippers which already carried much of the world's sea-borne traffic. By 1827, it is true, British-built steamers had made successful voyages to India and to America, but even in 1847, there were no more than 924 British steamers registered and their tonnage was only 4 per cent of the total of the British merchant marine of the period, while the average tonnage of each was only about 125. The iron steamship however was by now beginning to appear, and its advent put Britain ahead again. On the Clyde, on the Thames, and also at Bristol, shipyards were producing iron ships, while the propeller, or 'Archimedean screw' as it was called in the early days, was asserting its superiority over the paddle.[1]

The advent of steam transport by land and sea brought with it the penny post (1841). The coming of railways and steamships naturally affected the production of coal and iron, as did the application of steam power to the manufacture of textiles. For the latter it was estimated in 1834 that about 30,000 h.p. of steam-power were available as against 10,000 water-power. In heavy industry the manufacture of machinery was by 1850 assuming significant dimensions. Two sets of figures will illustrate the expansion caused by these developments during the years 1830–50. In 1830 the production of coal in Britain is estimated to have been 25 million tons; in 1856 it was 65 million tons. In the ten years 1839–49 the year's production of pig-iron rose from 191,000 tons to 554,000 tons.

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[1] In reading this catalogue of man's achievements over nature, it is as well to remember that some of the new discoveries were distrusted and that they all took time to perfect. 'What you say about the effects of ether on Catherine Swaine', writes Charlotte Brontë to Ellen Nussey in 1847, 'rather startled me, as I had always consoled myself with the idea of having my front teeth extracted and rearranged some day under its soothing influence—but now I should think twice before I consented to inhale.'

The main immediate commercial result of the development of communication was, of course, the growth of the home market. This is the period at which the ordinary working man began to buy machine-made goods. In the first third of the century the Potteries were already turning out plates and cups which sold more cheaply than local products, and Lancashire cottons were displacing hand-woven linen. In mere numbers, too, quite apart from accessibility, this home market was increasing by leaps and bounds. From the beginning of the nineteenth century the census figures give data on which we can rely of the growth of population, and the vast increase which these figures show indicates that much of what was produced might be absorbed at home. But this was nothing like enough to satisfy the ambitions of the English textile manufacturers. Towards the end of the Napoleonic wars they had piled up large stocks in the hopes of selling them on the Continent as soon as peace came. When the fighting was over, a 'boom' developed, but it was short lived. Nobody could pay for British goods. To save the cost of bringing them back to waste, they were sold for whatever they would fetch. An outcry was raised by local manufacturers and workers against the sale of goods at prices which spoiled their markets. In Belgium there were riots against the sale of British goods. The consequence of these widespread protests was the raising of a tariff wall throughout almost the whole of Europe, and also in the United States of America, against British goods. Thenceforward the British manufacturer could rely on selling only a small proportion of what he produced to Europe. France entirely prohibited all foreign manufactures in 1810, and only permitted a few to enter, on payment of high duties, after the publication of her tariff of 1822. The chief market in Europe for British goods was Germany and Central Europe, though there also they were liable to high rates of duty. These were largely evaded by smuggling, in the interests of which the services of British diplomats were actually sometimes enlisted. But as ample compensation for the loss of European markets came the growth of markets in Africa, India, and the Far East.

The great prosperity of textile manufacture in England in the middle of the century was based on the sale of shirts not to white, but to black men. In the period 1839–49 the sale of textiles to India, Ceylon, and Turkey more than trebled. By 1850 no less than a tenth of the entire British export of cotton goods went to Hong Kong and China—a notable result of the 'Opium war' (see below, p. 362), and sales to the British West Indies, where there was a large negro population, and to Brazil were also high. These facts naturally enough influenced profoundly those who had to mould British foreign and imperial policy.

Cotton was the largest item in the English export trade. In the years 1835–40 the export of yarn, cotton cloth, hosiery, and lace was on the average worth £24 million a year. The average value of the next most important export, wool, was £6 million, and of all other exports put together, approximately £20 million. The manufacture of cotton goods was largely concentrated in Lancashire, and it is hardly surprising, therefore, that 'what Lancashire thought to-day, England would think to-morrow'.

The United States was the biggest customer for British woollen manufactures. She took more than a third of British exported woollen cloth, more than a third of her carpets, and nearly two-thirds of her blankets. The United States bought also a considerable quantity of iron, produced in this country, in bolts, pigs, castings, &c. Of other exports, France bought a fifth of the British exports of coal, and by 1850 (this was a recent development) Germany was buying a similar amount. Denmark bought a twelfth, and Russia and Italy were also customers. The export of machinery, which by the end of the century was of great value, in 1831 was worth only £100,000, and less than £1,000,000 even in the later forties, after the various hindrances to its export had been removed.

III. SOCIAL CHANGES

The nineteenth century was the century of optimism. It was the century in which the theory of evolution, of the survival of the fittest, was invented, the century in which the majority of the well-to-do felt that unhappiness where it existed was only incidental to the fundamental rightness of society; unhappiness was the process whereby the socially unfit were eliminated in order to achieve the fittest social organization. 'Suffering and evil', wrote the editor of the *Economist* in 1848, in opposing the Public Health Act, 'are nature's; they cannot be got rid of; and the impatient attempts of benevolence to banish them from the world of legislation, before benevolence has learned their object and their end, have always been productive of more evil than good.' Nature knows what is best for us; why, therefore, try to get rid of cholera by banishing the dunghill from the tenement back-yard? This is the dominant argument in the economic theory of the century, though contradictory voices might always be heard, and some of the most striking facts in the history of our period are not the progress made in methods of production, but the efforts to combat its evil effects.

Though former commercial changes had sometimes had widespread social effects, the majority of the rural population had hitherto remained untouched by them. The country-side was self-supporting to such a degree that in the great majority of districts the great majority of people were hardly disturbed by wars or rumours of wars, or by a trade treaty which offered inducements to the rich to drink port instead of claret. The new developments, however, affected a larger and larger section of the population, and affected them more and more deeply. The fact that Europe or India was being supplied by English mill-hands affected the lives of hundreds of thousands. And if at the beginning of the nineteenth century the new production affected the lives of hundreds of thousands, by the end of it it affected the lives of millions, almost of tens of millions, in England alone, and the lives of literally hundreds of millions outside it.

Social inequality had existed from time immemorial, in ancient Greece as well as in eighteenth-century England. The Industrial Revolution changed the character of this social inequality. It brought a change in the ownership of economic power. The enclosures decreased labour costs and increased profits; but they turned the small-holder into an ordinary labourer, the hired servant of a large-scale farmer. The factory system and the introduction of machinery were necessary to expand production; but they turned the worker from dependence on himself to dependence on the man who owned the factory and machinery without which his labour was almost worthless. Disraeli, writing in 1845 (the cleavage between rich and poor was possibly never so great as it was during the years 1810–45), said that in England there were not one, but two nations, and that the interests of each of the two, rich and poor, were poles asunder. The disadvantages of poverty were doubly emphasized by the loss of security of tenure and the loss of those comforts which the ownership of a plot of ground in addition to the labourer's cottage had provided.

Some of the towns now becoming industrialized had already existed in the seventeenth and eighteenth centuries; in such towns (such as London, Plymouth and Bristol) large houses formerly lived in by the rich had frequently been converted into tenements for poor families. Both in such houses as these, and in the cottages put up to house the growing population of the new towns, one defect which greatly intensified the evils of overcrowding was the lack of light and air. The window tax, first imposed as a 'temporary measure' in 1696, did not reach its maximum (13*s.* each a year, for every window above eight in a house) till 1808, and this was a strong reason for the landlords of the large tenement houses to be economical with air. There were other reasons, too. 'Windows are not recommended as affording the best means of insuring ordinary ventilation,' said a medical authority in 1844, 'though they may be resorted to with advantage when the weather is not severe or under peculiar circumstances.' Other things besides the weather it was even more necessary to keep out. The Royal Commission of 1844, after describing how the sewers discharged into the Bridgewater Canal, pointed out the inconvenience caused thereby to the inhabitants of houses which overlooked it; 'a constant decomposition of the filth at the bottom of the canal (they say) is going on, and large quantities of carbonated hydrogen bubble up, causing an appearance like a strange ebullition.' Disraeli, describing an industrial town, explains how 'before the doors of these dwellings and often surrounding them, ran open drains full of animal and vegetable refuse, decomposing into disease, or sometimes in their imperfect course filling foul pits or spreading into stagnant pools, while a concentrated solution of every species of dissolving filth was allowed to soak through and thoroughly impregnate the walls and ground adjoining'. Some such stagnant pools were observed by a French visitor of the time at Whitechapel, who calls them 'des mares fétides qui attestent l'absence de toute règle pour l'écoulement des eaux'. Most of the new towns in the forties had in literal fact standards of drainage far inferior to those of the palace of Cnossos in 1500 B.C. There were indeed in most places no drains at all; 'contiguous to every door might be observed the dung-heap on which every kind of filth was accumulated, for the purpose of being disposed of for manure.' In many places water was not laid on, but drawn from wells, the contamination of which can be imagined better than described; in others all water had to be bought from the water carrier, who came round and who charged anything from a shilling a week to threepence or fourpence a bucket. In Leeds, in 1842, after the public scouring of the streets began, out of 586 streets, 68 alone were 'under any regulation whether as to paving, draining, sewering, or cleansing', and in Newcastle the commissioners talked of 'that mass of filth that constitutes the streets', and of their only cleansing, that 'which providence showers from the clouds'. It is scarcely necessary to describe in detail the effects of such conditions on the health of the inhabitants of those towns. In the opinion of most observers it was the grouping of men together under those conditions much more than the factory system which caused the 'pallid and careworn' appearance of the workers. The death-rate in Glasgow in 1821 was 28 per thousand, in 1838, 38 per thousand, and 1848, 40 per thousand. It grew as the city grew.[1]

Nor were these the only grievances suffered by the working classes. Meagre wages and high food prices contributed greatly to their miseries. Up to 1750 England had regularly been able to produce enough corn to feed her own population, but the sharp rise in population which made itself apparent about that time meant that thereafter, though it was not necessary to import corn if the harvest was good, when it was indifferent, home supplies had to be supplemented from abroad. From 1757 the bounty paid on exported corn had been suspended to keep home supplies for home consumption.

Manufacturing interests were growing, and were carefully nursed by the government; and what the manufacturers desired was cheap corn, so that a relatively low wage might go as far as possible. Accordingly in 1773 export of corn was actually forbidden in any year in which the price of a quarter of corn should exceed 44*s*., while import from abroad was allowed on payment of a small duty if the price of corn went above 88*s*. a quarter. As a result the average price in the years 1773–91 was approximately 46*s*. a quarter. In 1791 the policy of the government changed. As James Mill pointed out in an article written in 1823, a 'few hundred families' in England still nominated a majority in the House of Commons, and in the House the 'more independent portion, the country members', were 'entirely identified with the great landowners'. Such a situation could not but give undue weight to the point of view of the farmer, from whom the great landowner drew his rents. Thus from 1791 until the middle of the nineteenth century consistent efforts were made to raise the price of corn by legislation. By the law of 1791, a duty was imposed on all foreign corn of not less than 24*s*. a quarter, should the price of corn fall below 50*s*. This had the effect of excluding foreign corn in years when there was a good harvest in England, and thereby preventing the price of English corn from falling too low. In 1795 the price of corn was 75*s*. a quarter, in 1796, 108*s*., in 1800 it reached 156*s*. With the Peace of Amiens there was a sharp fall in prices, and thenceforward the low limit at which the 24*s*. duty was imposed was raised to 63*s*. a quarter, and remained at that price until 1815, when import was forbidden if the price was under 80*s*. a quarter.[1]

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[1] Compare the following appalling figures for infant mortality: 'In Ancoats (Manchester, about 1835) out of 100 children born only 40 or sometimes 35 reached their fifth year: in the healthy quarter of Market Street, 60 survived.' *Early Victorian England*, vol. i, p. 167.

Meanwhile the wages of the industrial worker and of the farm labourer had been rising, but the rise was not comparable with that of prices. In 1801—a bad year for the poor—the price of corn stood at 180*s*. a quarter as compared with 48*s*. twelve years before, while wages had increased only by a half. The position of the small farmer or of the labourer might still be tolerable if he could eke out his wages by spinning and weaving, but these were rapidly becoming less profitable. For the industrial worker such prices for food would have meant starvation, had not his wages been subsidized by additional grants from the poor relief funds. The Speenhamland system (see above, p. 222) has come in for much abuse, and no doubt in many ways its working was unsatisfactory, but to its credit must be remembered that for much of the difficult war period it was this alone which kept the starving lower classes alive and docile.

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[1] Precisely what effect the corn laws had on prices during and after the Napoleonic wars is a matter of dispute. Prices soared to levels unheard of during the course of the war, but this was probably the result much more of war conditions than of the Corn Laws, and their main effect was to encourage farmers to sow more wheat than hitherto. Encouraged by the high prices fetched by their wheat, farmers borrowed extensively during the war period to carry out improvements in their lands, and met with disaster in the slump in 1815 (when wheat fetched about 65*s*. a quarter) and 1816 (when it fetched on an average no more than 52*s*.). In these years agricultural distress was as bad as industrial. In the year 1815, 844 farmers went bankrupt in Norfolk alone, 850 in Suffolk, 890 in Worcestershire, and a contemporary reported that 'the prisons are choked with farmers'.

In the twenties and thirties of the nineteenth century the difficulties of the poor were relieved somewhat by lower prices and by increased employment as trade in general slowly revived. For the agricultural labourer the extension of the cultivation of potatoes throughout the country-side belongs to this period, and it gave him a means of providing himself with cheaper food. Moreover, in the districts where industry competed for his services, the agricultural labourer began to enjoy markedly better conditions. In industry, too, the highly skilled worker commanded good wages. During the war men engaged on fine spinning were paid as much as 44*s.* 6*d.* a week, and in 1849 they still made approximately 37*s.* a week. Spinners in the lower grades might get in the forties a weekly wage of 18*s.* It was the hand-loom 'cellar' weaver, not yet ousted from the industry, whose fate was so bad. He kept his independence by refusing to work in a factory, but the poverty he suffered as a result was extreme. When the Commissioners reported on his lot in 1841, they found that the weaver of fine qualities in Glasgow might make 7*s.* 6*d.* a week, but that in Blackburn the value of a whole family's work amounted on an average to 9*s.* 6*d.* a week, and at Ashton-under-Lyne to less than 5*s.* These circumstances were not exceptional but the rule. Families were living in one disease- and filth-ridden room, deeply in debt and starving, with the earnings of their work for the next two or three weeks perhaps already mortgaged. In most other industries conditions were rather better, though still bad. Wages in the coalfields in 1850 ranged from 15*s.* to 20*s.* a week, and in the previous twenty years had at times been slightly higher than this.

To the difficulties of starvation wages were added other oppressive circumstances. Hours were long; conditions in the factories were unhealthy. In some trades the apprentice was brutally treated. In many districts workers had to buy from shops owned by the management of the works, and were overcharged for inferior goods. If they complained or spent their money elsewhere, they were dismissed and care was taken to see that employment should not be available elsewhere. This was the system known as the 'tommy' shop. The literature of the period is full of protests against this abuse, and it was one of the causes most responsible for rioting. Government agents were employed to incite labourers to commit illegal acts for which they were promptly arrested and sentenced. The law was excessively harsh to the lower classes. It might happen (as it happened in a recorded instance at the Old Bailey) that a series of petty thefts from the middle and upper classes were punished by sentences of death or transportation or years of imprisonment, while the murder of one poor man by another was regarded merely as a slight breach of the peace and punished by a nominal fine. Poaching in particular, since it affected primarily the rich landowner, was punished with extreme severity, but it persisted because, as it was said at the time, it was 'better to hang than to die of starvation'. The magistrates before whom the offences were heard were themselves members of the ruling classes, and there is no doubt at all that many of them treated offenders with harshness and injustice. James Mill called the church and the legal profession 'the two props' of the land-owning classes. His son, J. S. Mill, talking in his *Autobiography* of the administration of justice in the twenties of the nineteenth century, called it 'that most peccant part of English institutions . . It was the almost universal creed of Englishmen that the law of England, the judicature of England, the unpaid magistracy of England, are models of excellence', but the reformer's duty was to maintain 'an incessant fire against it, exposing the absurdities and vices of the law and the courts of justice paid and unpaid, until he forced some sense of them into people's minds'.

Two main remedies were possible, one agitation, and the other action through the agency of trade unions. Neither of these were altogether satisfactory, and what was actually most effective in these early stages was the propaganda of the better employers themselves, men like Sir Robert Peel and Robert Owen. In the forties many people interested in the welfare of the industrial and agricultural workers believed that the solution to their problems was a change of mind on the part of employers in general, and the development of a more paternal and kindly spirit. How far that would have been a satisfactory solution in a country where the feeling of democratic independence was steadily growing is doubtful. With employers already thinking, like the company director in Galsworthy's *Strife*, that to yield an inch would only be to make the employers' position more unbearable, and would therefore be class treachery, it was not a possible solution. Agitation took the form of demands for parliamentary reform both before and after the passing of the Reform Bill, and for legislation regulating conditions of employment. The clamour for parliamentary reform, begun in the eighties and nineties of the previous century, had been suppressed by the government after the outbreak of the French Revolution. The need for reform was indeed obvious. Seats in the House of Commons were obtainable by purchase for the family which could afford a 'rotten borough'. But the upper and middle classes had been horrified by the excesses of the French Revolution and feared that any step in the direction of reform might be the prelude to Jacobinism in England. The two parties, Whig and Tory, were both fundamentally aristocratic. A radical critic in the twenties of the nineteenth century pointed out the tendency of the governing class to divide itself into two parties, 'one of them in the possession of the executive, the other endeavouring to supplant the former and become the predominant section by the aid of public opinion without any essential sacrifice of the aristocratical predominance'. It was this fear of Jacobinism and the unwillingness to sacrifice 'aristocratical predominance' which led to the repressivemeasures of the 1790's, and to the 'Six Acts', passed in 1819, following the 'Massacre of Peterloo', to restrict the right of public meetings and to put obstacles in the way of the growth of a popular press. Both at this time, and later in 1832, the discontent was widespread and menacing. Armed force was used to suppress it, but nevertheless, riots and incendiarism, accompanied sometimes by loss of life, continued spasmodically on into the forties. There were times when it looked as though trade unionism would prove an adequate remedy. It had been suppressed by Pitt, with his famous Combination Act in 1799,[1] but was made legal again in 1825, and though great efforts were immediately made by industrialists to crush it, they failed. A National Consolidated Trades Union was formed, whose object was to organize labour throughout the country. Industrialists, thoroughly alarmed, began the system known as the 'Presentation of the document', whereby those whom they employed had to agree, as a condition of employment, that they would not join any trade union. Ultimately six Dorset labourers were sentenced to seven years' transportation apiece on the grounds that in forming a branch of the union they had used illegal oaths, and these measures obliterated trade unionism for the time. As a secret movement it still persisted. Solemn precautions were taken to prevent the violation of trade union secrets, and in some instances members bound themselves actually to murder, if their union should decree it to be necessary. It is not surprising that Karl Marx, writing in England in 1850, found in English industrial conditions evidence for his doctrine of the class war.

Meanwhile the Reform Bill had at last become law. The workers pinned their faith to the belief that parliamentary reform was the cure for all their sufferings. What was more important for the success of the measure was that it had middle class support. Wellington had said that the Battle of Waterloo was won on the playing-fields of Eton. Battles may be won on playing-fields, but wars are not. The Napoleonic Wars were won in the workshops of the Midlands and North and in the counting houses of London. This rising middle class demanded the right to be heard in Parliament. Big financial interests also were insistent in the demand for it, partly, no doubt, because they saw in reform the only alternative to revolution. When the Prime Minister declared that he would consent to no reform, everything was in tumult and panic. 'The streets', as Macaulay wrote a year later, 'were insecure. The funds fell... We began to move our property into German and American securities.' At the critical moment the government yielded. The Reform Bill passed into law. Macaulay had been present at the fateful decision. He passed out of the House and through the dense crowd and hailed a cabriolet. The first thing the driver asked was—'Is the Bill carried?' 'Yes, by one,' came the answer. 'Thank God for it, Sir,' said the driver. The whole of England, as never before, had been waiting for the answer to that question.

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[1] The immediate cause of the passing of the Act was the formation of an association of weavers to demand that the Justices of the Peace should enforce an Act already existing for the regulation of wages.

The Bill gave the vote to the business man, and the small shopkeeper. It was not democratic. It did not give the vote to the masses who had fought for reform, and indeed in the few constituencies which, like Westminster, had had a democratic franchise, the bill destroyed it. But for the moment they were satisfied, for they believed that an improvement in the condition under which they lived must follow.

They were soon disillusioned. The golden age which they had looked to the Reform Bill to usher in, failed to materialize. The year after the passing of the Reform Bill saw indeed the passing of an unprecedented amount of social legislation, but what seemed significant to the working man was that the house in which he lived, the conditions under which his children were brought up and under which he himself worked, and the price he paid for his food, were not forthwith drastically altered. The mills of the Reformed Parliament ground exceeding slowly to his mind, and he was not prepared to wait and see how small. He turned, therefore, to an agitation for more complete reform of Parliament, and the movement known as Chartism, from the People's Charter which contained its programme, began.

The agitation reached its height about 1840. Its objects were to ensure the control of Parliament by the masses, and to make it possible for the working man to enter Parliament. Its demands were that every man should have a vote, that a general election should take place once a year, and that voting should be secret—'by ballot'—so that the possibilities of intimidation and of corruption through the buying and selling of votes should be diminished. It demanded also that there should be no property qualification for membership of Parliament, and that Members of Parliament should be paid salaries in order that membership might be possible for those who had no independent means.

For a time the Chartist movement was a factor to be reckoned with in politics. Its most powerful supporters came from the industrialized parts of the country, and a significant fact was the part played by women in the agitation. It is said that a mass meeting held in Manchester in support of Chartism was attended by 200,000 people. The movement showed indeed how the masses were gaining in strength, thanks to the changes of the Industrial Revolution. Its leaders moved about the country in as many hours as before they might have taken days. Its programme was familiar throughout the country. But Chartism was only a temporary phase. Its main objects were indeed ultimately realized. But for the time being it was swept aside in the movement for the repeal of the Corn Laws. Here at last, it was believed, was a political measure which could with a stroke of the pen make a real and practical change. Here, moreover, masters and men saw eye to eye, for cheap corn was to the advantage of both. The ideal of Chartism was something relatively intangible. When cheaper bread was offered 'in black and white' by the Anti-Corn-Law League, they snatched eagerly at the chance. The Corn Laws were repealed in 1846, and thenceforward until 1932 foreign corn came into England virtually duty free.

IV. ECONOMIC THEORIES FROM ADAM SMITH TO KARL MARX

The repeal of the Corn Laws marked the triumph of the theories put forward by Adam Smith in the *Wealth of Nations*, in 1776. The younger Pitt had called himself Adam Smith's pupil, but his lessons had taken a very long time to bear fruit. Adam Smith, as has been seen above, had refuted the mercantile theories of the seventeenth and eighteenth centuries, and in particular the view that the value of any branch of the nation's commerce depended on the amount of gold or silver which it introduced into the country. He considered that the State's attempts to control trade had been productive of more harm than good. He believed that State regulations should be relaxed, and the development of trade should be left to individual action, not so much because individual action was an ideal solution as because it would at least be more satisfactory than State control, which experience had proved—notably in the case of France—to be a failure. At the same time he argued that the principle of looking for bullion returns alone was an unsatisfactory one, and that the wealth of nations did not simply consist in the amount of gold in circulation within their lands. The beginning of the Industrial Revolution and the factory system were in his day already emphasizing the importance of the division of labour, and of specialization, in any rational system of production. Adam Smith pointed out that these principles applied as between nations as well as between individuals. One nation might be indifferently equipped for agriculture, but able to manufacture beyond its own needs, while in another the position was reversed. In such a case it would definitely increase the wealth of both if instead of trying to supply all their needs they arranged to exchange what they could produce most easily themselves with what could easily be produced elsewhere, specializing in the production of that for which each was best suited. It might be impossible for other countries to pay England in gold for her exports, but to refuse for that reason to export to them would be the height of folly. Broadly speaking, therefore, and with certain reservations which were due to the necessity of being prepared for the outbreak of war, Adam Smith believed that State attempts to regulate production—for example, by prohibitions or tariffs on foreign imports—were harmful to the development of commerce in general and actually caused loss of real wealth to the countries concerned. If (as it turned out was the fact) England was uniquely situated for developing her manufactures, she should concentrate her attention on them, and on securing food anywhere at the cheapest possible rate for her manufacturing population.

Adam Smith's views were carried farther by his successors. While he believed that the development of commerce should be entrusted to individual enterprise, because State enterprise had failed, they maintained that each individual, in seeking his own advantage, actually by doing so was promoting the advantage of the country as a whole. There was, therefore, a positive duty on the State to refrain from any sort of interference with the economic life of the country. The first stages of the Industrial Revolution were passed at a time when this theory was very generally accepted, and it was because State regulation was out of fashion that the new industrial areas developed without any standards of health or cleanliness being imposed on them, that the Factory Acts were opposed so energetically, and that children worked in mines and came out ailing or deformed as a result of the hardship they had suffered. And if these symptoms were disturbing it was only too easy to satisfy one's conscience by turning to the theory advanced in the first edition of Malthus's work on population —that however much the supply of food or commodities in general was increased, population would increase with it until the masses were living at the level of bare subsistence, and that improvements were no sooner effected, therefore, than lost. These were the views which were held by the majority of business men in the first half of the nineteenth century. Though the natural conclusion of such views was the repeal of the Corn Laws and the general establishment of free trade, it was also the removal of all restriction which in any way limited the manufacturer's freedom of action, whether by setting standards of wages or comfort, or even safety.

A succession of popular economists developed (or claimed to develop) the theories of Adam Smith into the orthodox economic doctrine of the nineteenth century. With the growth of the popular press popular economics appeared for the first time; and it was in the nineteenth century, and still is, one of the most powerful forms of propaganda used by interested parties both in politics and in commerce. It is something very different from the economics of the philosopher. We most of us accept from our environment certain views about society. If we think we stand to gain by change we tend to believe in it, and if to lose, we oppose it. Popular economics is the mass of argument worked out by either side to support its convictions—but it is the convictions that come first and not the argument, and the appearance of reason which such argument gives is almost wholly spurious. The theories widely current in the mid-nineteenth century were the arguments used by those who were prospering on the Industrial Revolution, to prove that any measure which threatened their own prosperity was economically unsound; and when faced with the fact of widespread misery they argued that it was contributing to the greatest happiness of the community as a whole, and that attempts to reduce it by State interference would produce results which were on the balance deplorable.

There were three main elements in the theories which gained widespread currency at this time. (i) There was a general belief in the unlimited virtue of competition, on the grounds that competition forced down prices for the benefit of the country as a whole. That there was another side to the picture could be seen by those who consider the railway building of the 'early railway age', the wastage incurred by the multiplication of small lines, by the floating of speculative companies which had to be bought up by others with which they were likely to compete, but which made no positive gain of any sort by the purchase. (ii) The doctrine was applied also to wages, and it was held that where two men were competing for service under the same master, wages must fall, while if two masters were competing to buy the labour of the same man, wages must rise. The statement might be true as a fact, if no employers were persuaded by their better judgement to pay employees a higher wage than the minimum they would accept; and such a state of affairs might be almost justifiable under the old conditions when most labourers grew much of the food they needed on their own holdings. Under the new conditions, where the worker was absolutely dependent on his wage, there could be no justification for it. If production was to be industrialized for the benefit of society as a whole, and if that meant the worker being deprived of his former means of subsistence, it became the duty of society to see that he had a living wage and to see that when he was not earning it by reason of a trade depression or any such cause, he should be maintained. Such a principle was the direct contradiction of utilitarian theory. (iii) Similarly, they maintained that price being fixed by what they called 'the laws of supply and demand' it was something like impiety to allow anything but profit-seeking to control the conditions of supply and production. Such laws were 'laws of nature'. This view is in strong contrast to that of Marx, who maintained that the effect of *laisser-faire* was to make the propertyless wage-earners victims of capitalist exploitation. They were without the resources for a struggle and to live they must work; and *laisser-faire* thus meant, not letting any one do as they liked, but letting the owner of land or factory do as he liked. He held the whip hand in society.

An illustration (which happens to avoid the prejudice aroused by class issues) may make the implications of these theories clear. Free trade was a popular cry in the mid-nineteenth century, and there was from many points of view much to be said for it. Its most influential supporters were the manufacturers who wanted cheap labour, which would be available only if food was cheap. The benefits to be obtained by a free trade policy were obvious; yet it meant a serious blow to the prosperity of colonies which had hitherto enjoyed preferences, to Canada, Cape Colony, and

Australia, not to mention to English agriculture. It was a convincing argument, indeed, that the English worker would benefit by cheap food, and the belief in such a proposition was almost universal; but if in fact this was simply to mean that he would be contented with a relatively lower wage, the moral value of the argument was not great. It might on the balance be the most practical policy, but there was no rare moral virtue in it. The policy of *laisser-faire* had by the middle of the nineteenth century achieved at least one of its great aims—the freeing of trade from tariff restrictions, and something more was now needed. It is true that not only corn, but hundreds of other commodities which had been dutiable in the early years of the century, by 1850 were imported duty free, as a result of measures introduced by Huskisson in the twenties and thirties, and Peel in the forties. It was a triumph for the policy advocated in the *Wealth of Nations* two generations before, and the immense prosperity of English industry was undoubtedly due largely to it. But the cost was not counted, and such success was far from proving that *laisser-faire* economics were the last word in economic theory for all time; and in fact these in their pure form were already discredited. Popular opinion could no longer be persuaded that it was right to allow girls and women to drag, on all fours, truckloads of coal up steep inclines—perhaps 16,000 yards daily. No one, or hardly any one, still believed that children of four and five should be allowed to be employed in factories. Regulations had already begun to be made affecting the 'liberty' both of employers and employed in this respect. Parliament had actually gone so far as to compel the railway companies by law to provide certain facilities for the third-class passenger, that despised category whose commercial possibilities were as yet quite unrealized, at certain fixed rates; each company was to run at least a train a day for third-class passengers, stopping at every station, at a rate of a penny a mile. State interference had already begun, or, to speak more accurately, it had begun again.

It was because public opinion was gradually becoming informed that these changes were taking place. And yet there were many who were dazzled by the achievements of the Industrial Revolution, and did not see its horrors. They talked (as did a writer of 1851) of the 'splendid triumphs of art over nature', and said that it was 'impossible to overrate the beneficial influence of that commerce of which this country is the centre and mainspring', and they 'unhesitatingly concluded' that a still more brilliant future was in store. To Marx, exiled from Germany since the revolution of 1848, the English scene caused very different reflections. When he saw how the growth of the use of machinery and of the factory system had put the worker at the mercy of capital, and how he was often working as a result under indescribably bad conditions for starvation wages, it seemed that the present was not so glorious. He believed, moreover, that the conditions of the workers would get worse and worse, and that the capitalist system of production would ultimately collapse, owing to the impossibility of finding markets to absorb the evergrowing volume of its products. When this happened the bourgeoisie and the bourgeois mentality must be smashed by violence before the workers' state could be created. He saw even in religion the attempt of the bourgeoisie to deflect the attention of the workers from the conditions under which they lived.[1] The State would have to be recreated from its very foundations.

A new element of business organization is worth noticing in connexion with Marxist economics. It was in 1855 that the first Act was passed which limited the liability of shareholders in joint-stock companies. Previous to that date shareholders in a joint-stock enterprise ordinarily had been liable up to the full amount of their resources for the company's debts in the event of its failure. This had naturally been a deterrent to the ordinary public, and had meant that shares were normally held only by those who had a direct and active interest in the conduct of the business concerned. For the general public there were certain other opportunities for investment—notably, of course, government securities, but the Act of 1855 gave industrial shares a far greater attractiveness than they had hitherto enjoyed. To an ever-increasing degree the country's savings began to be reinvested, not in land, but in business or industry, in insurance, manufacture, or commerce. The concern of the ordinary shareholder was confined to attending the annual meeting of the company to vote in the election of its directors, or even to reading its annual report, or simply receiving the dividend which it paid him from time to time. Marx had foreseen the gradual concentration of capital into fewer and fewer hands. Actually the process was reversed and the ownership of the capital of many concerns was dispersed more and more widely and came to be held by thousands of shareholders. To facilitate these transactions and the buying and selling of shares by the general public who looked simply for a return for their money, stock exchange business developed, and while it made possible extravagant speculation in securities, it also provided the business community with valuable facilities and gave the general public a useful lead as to the direction in which its money might most profitably be used. One of the main requirements of society—organized on its present basis—is the provision of some means of discovering in what directions production may profitably be employed. In the old days it had been possible in times of excited speculation actually to float a company and collect money from the general public 'for an undisclosed purpose'. The systematizing of 'speculation' rid finance of some of these worse abuses. Moreover, as speculation in 'futures'[1] increased it came to be recognized as an ordinary form of insurance for the wholesale dealer in raw materials. A subsequent development of the 'limited liability' system has been the conversion of estates and similar properties into companies, in order that they should enjoy the benefits of limited liability.

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[1] So did Napoleon, who saw in Christianity 'not the mystery of the incarnation but the mystery of the social order'. It kept people quiet.

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[1] I.e. the practice of buying and selling raw materials, &c., before adequate information as to supply is available. The dealer in futures tends to make handsome profits when the crop is good, since he can buy cheaply to fulfil the obligations he has undertaken. He tends to lose when the crop fails. The user gains because by buying thus ahead, he buys at a price which is relatively unaffected by fluctuations due to bad seasons, &c.

These changes played a large part in the enormous growth of the so-called 'middle classes' in the nineteenth century. But the limited liability principle had some unfortunate effects. Though in most factories the hands had worked under conditions almost as bad as can be imagined, in exceptional instances the direct personal relationship between employer and worker made for a unity which has since almost disappeared from the huge modern business; in which the managing director, however good his qualities, is the salaried official of the shareholder. The new system led also to that glorification of property which is one characteristic of the second half of the nineteenth century. 'Men of property' were the new business aristocracy of the country, a third nation besides Disraeli's two, and generally their feelings were for solidity and value rather than for aesthetic quality. Their houses, for instance, in which the domestic staff was appropriately put to live underground, were astonishing examples of dreariness and gloom, preferable to the products of the speculative builder of to-day only because the latter combine 'shoddy' construction with extreme ugliness, while the Victorian houses will at least stand for ever. The rich Victorian lived most of his life in a club with all the windows shut, cultivated (with conspicuous success) a senatorial appearance, and put his money into bonds. The not quite so rich might spend occasionally on the imitation which Gladstone in 1880 so roundly condemned. 'We live in the age of sham,' he said. 'We live in the age of sham diamonds, and sham silver, and sham flour, and sham sugar, and sham butter, for even sham butter they have now invented and dignified by the name of Oleo-margarine.' Yet even the Victorian shams had the typical Victorian quality of solidity and permanency. The Victorians put their money into something as substantial and as lasting as possible, into factories, or into heavy mahogany furniture, or into 'consols'. The most depressing feature of the age is its horror at the view that money exists to be spent. The Romans had at least spent their money on their villas, their favourites, or their stomachs, but the Victorians, as a whole, preferred to save it, invested where it would breed. Galsworthy's Timothy Forsyte, leaving his money to mature for a century at compound interest, is a typical figure of the age. But this is only one side to the picture, and an age which produced a Livingstone or a Hardy—to take two great names alone—has little to fear when contrasted with others. It is not only an age—it is a paradox. Against a background of mediocrity there is thrown up such a display of genius as perhaps no other period in English history can show. It was indeed an age of prophets as well as of profiteers—and perhaps, in its way, the achievement of both is almost equally great.

V. COMMERCE AND FOREIGN POLICY

The growth of the power of public opinion was one of the most important factors in nineteenth-century foreign policy. The development of an urban England, the perfection of communications, the creation of a cheap press were all significant factors in this growth. But it is a much more difficult task to discover what were the hands by which this powerful instrument was manipulated. Public opinion is, like the plague, infectious. Some one said, apropos of a recent presidential election in America, that the chief concern of the great mass of voters was to discover who was likely to win and then to cast their votes for him. Once an idea is spread with powerful support behind it, it spreads like wildfire. Nothing succeeds like success. During the last century the economic interests of the country taken as a whole never stood to gain by war. War is an undertaking so costly that its results hardly ever pay for it. But the interests of this or that section of the commercial community sometimes demanded war, or more often the threat of war, to terrorize foreign or native opposition, and these interests somehow became identified with an imaginary national interest and prestige.

The earlier part of the century was the time when England enjoyed an unchallenged commercial supremacy, and in the eighties and nineties, when that supremacy had begun to be challenged very seriously, English public opinion still considered that English commerce had, as it were, a divine prerogative to dominate the world, and that English statesmen must make this clear to any foreign powers whose attention it might have escaped. The main interest of the manufacturing interests as a whole during the first three-quarters of the century was peace, in order that markets might be as fully as possible expanded and exploited. They held, moreover, that the State should not interfere in any capacity on behalf of the manufacturer. Such was the position as seen by the manufacturer John Bright. A speech of his made in Birmingham in 1858 contains an acute analysis of English foreign policy since the time of the glorious revolution of 1688, when the Whigs replaced the power of the king by the power of their own parliament. During the course of this speech he stated that wars for the past two centuries had been a 'gigantic system of out-door relief for the aristocracy of Great Britain'. Most of them had been fought ostensibly on commercial grounds. He analysed their cost as contrasted with the value of the commerce they were designed to protect, and concluded that it would have been cheaper to pay the manufacturers direct compensation for the losses they were sustaining, than to fight wars on their behalf. But war and the governing of colonies was a profitable occupation for the aristocracy, and this, he maintained, was the real reason for bellicose policy. If the account given in Disraeli's early novels of how far political and military preferment still depended on favouritism is a true one, then the indictment is justified.

Yet by John Bright's day, there was a danger of war becoming a 'system of out-door relief' for the class which he himself represented. The point can be made clear by the consideration of two important events, the Opium War in China and the Indian Mutiny. The following figures are worthy of attention in the discussion of these incidents. In

1849 English exports to India reached a total of £6,149,784. Of these exports, cotton manufacture, hosiery, lace, &c., and cotton twist and yarn accounted for just under £4,000,000 (£3,977,805.) The westernization of India was making her into one of our most important customers, and when it had gone farther her value as a market for goods and a field for investment might prove incalculably great. The estimated value of opium exported from India to China during the same period was £4,000,000, and opium was grown in India under a government monopoly, so that profits from its sale were profits for the East India Company. China paid for her imports from Britain, which by 1850 already included great quantities of Lancashire cotton, partly by exporting tea and some manufactured products, but to a very large extent by exporting bullion. The East India Company could ill afford to see the market for Indian opium closed.

The Opium War was soundly condemned by many of the manufacturers of the time. In the speech alluded to above, Bright said of the Opium War that 'no man who cares anything for the opinion of his fellow countrymen, has dared to justify it'. And yet a commercial writer on China, writing in 1850, maintains that England acted completely within her rights.

'The principal export from India', he says, 'was formerly raw cotton, chiefly from Bombay; but opium has long surpassed that article in importance, having latterly been clandestinely imported into China to so vast an amount that its value rather exceeded that of the tea exported. In 1839, the Chinese government, having attempted to suppress the trade, confiscated and destroyed the opium belonging to English subjects' (opium which by western standards was, of course, contraband); 'and this outrage having led to hostilities with this country, a total change has been effected in the commercial policy of the empire by the treaty negotiated with this country in 1842. The Chinese authorities bound themselves by the treaty to pay to the English 21,000,000 dollars as an indemnity; to open the ports of Amoy, Foo-Choo-Foo, Ning Po, and Shanghai, as well as Canton, to the ships and goods of England; to cede to us the island of Hong Kong, in the estuary of the Canton River; and to establish a just tariff on exported and imported articles.'

Very little needs to be added to this summary of the facts, save to point out that besides the gain to the East India Company must be reckoned the gain to Lancashire through the opening of these 'treaty ports'.

It is abundantly evident that commercial causes aggravated the discontent in India. Whereas in the eighteenth century India had exported cotton fabrics and muslins in large quantities to England (see above, p. 172) now the process was reversed. Sir Robert Peel described in the House of Commons the results in the case of what had formerly been the flourishing city of Dacca. It used to have a population of 150,000 to 200,000, which was now reduced to 20,000 or 30,000, and malaria and fever were threatening to turn it into a desert. India was compelled to admit English cottons at a duty of not more than 3½ per cent., while Indian goods coming to England were subject, until Free Trade was realized, to the ordinary tariffs. Though this, and the commercial domination of India in general by the British, may not have been an immediate cause of the mutiny, certainly they were responsible for some of the discontent to which the mutiny was due. The position was admittedly a difficult one, and the profits from British rule did not appear on one side of the account alone. But we had gone to India for trade and we stayed for trade, and it was British economic interests in India that made necessary the use of force.

As time went on, these economic interests were going to commit both ourselves and all the other great mercantile powers to political interference in many different parts of the world. Yet it is on the whole remarkable that they played so little determining part in the wars in which nations were thereafter involved. The European system of ententes and alliances was to shift kaleidoscopically before it was consolidated into its final pre-War form. At one moment we were within an ace of becoming Germany's allies, and at the next we were seeking friends among her enemies. For many years we were hardly on speaking terms with France—and then the quarrel was patched up and the Entente Cordiale proclaimed. These changes were not manifestations of a changing commercial or economic situation, save in so far as material factors were conspiring more and more to make nations into persons, an illusion which was increased enormously as they built up their armies and fleets. Public opinion became more and more difficult to control. It is hard to keep one's head in a stampeding crowd, and mechanical inventions were making nations into crowds—one had almost said into tribes. A European statesman recently claimed that he was speaking to a massed audience of 20 million men. Such an audience must have in it the makings of intransigeance and recklessness.

Thus while the period of this chapter includes a war which is almost purely commercial in origin, towards the end of it we find different conditions in operation. There were British business interests in Turkey, and these had, indeed, been expanding in the period immediately before the Crimean War. The threat to Turkey may have turned some, who had business interests there, against Russia. But the causes of the Crimean War, like the causes of those of the next two generations, were more intangible. The Russian 'menace' was felt as a personal threat, and Russian 'insults' as an indelible disgrace to the man in the street; a disgrace of the kind which, after all (as he thought), he was paying an army to avenge. Thus in public affairs he could exercise a sense of power which in his everyday life had no scope. For a moment he became himself a leader. In such a situation it is a wild-goose chase to look for the causes of war in the economic or commercial field. Economic causes are certainly responsible for social discontent, and wars are certainly sometimes engineered as a way of distracting attention from such discontent. Economic difficulties may or may not cause international tension—it will depend on the state of mind of the nations at the time. Bismarck fought, not to make money, but to make a nation. Sometimes—perhaps more often than is suspected—'big business', working behind the scenes, may manipulate national feeling for its own ends, just as politicians manipulate it for political purposes; and often enough, when war for a political purpose takes place, nations are enticed into it by promises of economic advantages that they may expect to gain. Until the 'profits are taken out of war' this economic danger will still be there. But there are other dangers, the elimination of which must prove a far more difficult task—unless, indeed, economic progress should get ahead of the politician once more, and make the world into one behind his back.

X.

FROM THE EXHIBITION TO THE GREAT WAR

I. STEEL, ELECTRICITY, AND PETROL

THE course of history is sometimes directed by forces which are blind, rarely by forces governed by intelligence, most often, by folly or by the results of the conflict between them all. Sometimes the influence of ideas is uppermost, at others society is dominated by powers external to itself and uncontrolled by its leaders. These may be physical changes, as the desiccation of a continent or the disappearance of forest, the occurrence of flood or earthquake or plague; or they may be more complex. The results of the Industrial Revolution, so spectacular, and at first glance so thoroughly admirable, seem superficially like planned results. It has brought a reasonable degree of comfort within the achievement of very great numbers. The human brain has been largely employed in its service, and its victories are commonly described as victories of 'mind' over 'matter'. And yet the Industrial Revolution in fact belongs to the second rather than the first order of historical forces. It has shattered civilization as surely as a barbarian invasion. The situation which it has brought into being is at present far beyond control. Its progress has been marked by acute phases of depression or 'crisis'. The causes of depression are too widespread for any social unit which at present exists to eliminate them, and they seem to demand nothing less than a planned world-economy—a demand which does not seem likely to be satisfied until a very remote future.

The present chapter deals with the history of a period in which the realization of these facts grew, and in which efforts began to be made to attack the social problem which the revolution created. But at the same time the Industrial Revolution was still continuing, and indeed gathering force with such speed that it often seems as if all efforts made to control it were complete failures. There are now millions of unemployed in every great country of the world (except perhaps Russia) the great majority of whom are living very near subsistence level, and many of whom are actually starving; and yet, as is well known, the immediate cause of all this unemployment is not that it is too difficult to produce both the necessities and the comforts of life, but that it is too easy to produce them. The Industrial Revolution, or its mass-produced goods, are penetrating every corner of the country-side, destroying much that is of priceless value in rural life and beauty, and yet we appear to be powerless to stop it. The Industrial Revolution has, at a stroke, destroyed the whole economy of the Indian villager by providing him with cotton cheaper than he can spin, and the effort made to reverse this 'progress' with the reintroduction of the spinning-wheel seems almost certainly doomed to failure.

There have been vast technical advances in production since 1851, but what is most significant about them is the rapidity with which each new advance has spread over an ever-increasing area. In the early phases of the revolution an advance made in technical equipment in Lancashire would take a few years to affect its immediate neighbourhood, a quarter of a century to affect a whole country, half a century or so to be universally adopted in Europe and America. But nowadays an invention like wireless telephony grows in a few years from its infancy to something like a full development throughout the world. The chief change in this period, therefore, is not one of technique, but of scale. The reader need only glance through the chapters of this book which deal with the spread of westernization through the world, to see to what an extraordinary degree the development in the new countries, Canada, South Africa, Australia, New Zealand, South America, and even the United States, is concentrated in the period covered by this chapter.

The period begins with satisfaction and confidence—satisfaction with the solid progress which had been achieved, and confidence that the progress was real progress. Most of the Victorians believed implicitly that the things which they were accomplishing marked out their age as one of unprecedented progress, and of progress in the most important spheres of life. This was natural enough. The great men of the age devoted their lives to the cause of this progress, sometimes without material profits to themselves. And because the endeavour was in a sense sometimes spiritual they thought that the results must be spiritual also—that there was something morally good about being able to travel from London to Edinburgh in under twelve hours, or in being able to telegraph from London to New York, or to control the lights of a city by a single switch. Their vision of human happiness was an extravagant distortion. They felt that even if all was not yet quite right with the world, it was at least becoming so very rapidly, thanks to the efforts of themselves and of their contemporaries. They thought that by supplying the black man with trains and trousers they were being his fairy godmother, and giving him the gift of happiness. The age which was one of such astonishing progress in science was, contrasted with the age of reason in the previous century, an age of pure belief. The publication of the *Origin of Species* in 1859 might shake belief in the Book of Genesis; the new 'higher criticism' was the beginning of a more sceptical attitude towards parts of the Bible than that which had hitherto prevailed; but belief in the ultimate excellence of the parliamentary system, belief that the political machinery of Great

Britain was a real democracy, belief in material progress as an unquestionable and unqualified good—all these beliefs were almost universally held even when religious beliefs began to be questioned. The Great Exhibition of 1851 was, as it were, the supreme festival of this belief of the age in itself. Thither were gathered (among many other novelties) tins of mutton[1] from Australia, a colossal statue of Queen Victoria cast in zinc, Colt's revolvers, agricultural machinery from America (which was thought superior to the English agricultural machinery of the period), and an 'Alarm Bedstead', made (appropriately enough) by Mr. Savage, of Birmingham, 'in which', we are told, 'by means of a common alarum clock hung at the head of the bed, and adjusted to go off at the desired hour, the front legs of the bedstead, immediately the alarum ceases ringing, are made to fold underneath; and the sleeper, without any jerk or the slightest personal danger, is placed in the middle of the room; where, at the option of the possessor, a cold bath may be placed; the expense of this bedstead being little, if any, more than that of an ordinary one'; in addition to exhibits representing all the great industries of Britain and of the Continent. Machines—'trophies' of England's 'bloodless war', as Thackeray called them—were the symbol of the supreme good. As Thackeray wrote in his *May Day Ode*:

> Victorious over wave and soil
> With them she sails, she weaves, she tills,
> Pierces the everlasting hills,
> And spans the seas.[2]

Something of the complexity of modern commercial life was already there, for every tin which reached England containing Australian mutton had left England in the form of plate.

The most important change in industrial technique during the years immediately succeeding the Exhibition was the invention of the Bessemer process for the manufacture of steel. Hitherto steel had been far too costly to be used for any save very special purposes. Bessemer, an engineer of French descent, whose interest in steel originally arose in the manufacture of guns, developed a process by which the carbon content of iron could be burnt out of it by introducing air into it in its fluid state; and into the resulting product the requisite amount of carbon could be reintroduced by adding a fixed proportion of an iron containing a certain quantity of manganese and carbon. Carbon is necessary to steel, but in a smaller amount than it occurs in iron, and this process, therefore, was a method of producing a right proportion of carbon comparatively cheaply. Bessemer described it before the British Association in 1856, and after a few years' experiment the process was very widely adopted. Up to this time railroads had been of iron. In 1862 the first rails of Bessemer steel were laid, and in the following year a steel ship was built. During the next twenty years iron rails became out of date and steel began to be applied to innumerable other uses. Bessemer's process was improved in various ways and the continental 'open hearth' process, invented not long after, was found a more satisfactory method for some purposes. In the late seventies there followed the Gilchrist-Thomas process for the elimination of phosphorus. Bessemer had been compelled to use ore which contained as little phosphorus as possible, and this meant that most of it must be imported from abroad, as the phosphorus-content of English ores was generally high. The Gilchrist-Thomas process made these English ores, and those of many other countries in Europe and America, available for steel manufacture. It was this invention which turned the eyes of German industrialists towards the ores of the Lorraine basin.

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[1] The process of canning was new and its use did not become widespread till the eighties.

[2] Quoted by Clapham, *Economic History of Modern Britain*, vol. ii.

For this technical progress was exploited on the Continent as much as in England. France, Belgium, Germany, and the United States began the manufacture of steel for themselves on a large scale, and a reference to the figures on p. 276 will show that though British production was expanding rapidly, production in Germany, if actually still smaller than that in Britain, was now expanding at an even more rapid rate. The Continent was better equipped in many ways for adopting the improvements of the 'neotechnic' age than was Britain. In Britain an enormous capital outlay had long ago been made, and to scrap it would mean at first so much dead loss. On the Continent many industries were now only just beginning, and the new plant as it was established embodied the results of the latest experiments and was equipped with the most recent machinery. Similar advantage is noticeable in respect of industrial organization. By the seventies and eighties it was evident that the day of *laisser-faire* was over; but the theory still existed, embedded in the traditions of British liberalism, and the past continued to exert a powerful influence on the present. Each new attempt made by the State to plan and to regulate was resisted, often very strongly, by industry. On the Continent no such tradition had ever been established, and in particular in Germany many industries from the first assumed a form which may be called socialistic; that is, the State was the owner of the capital. The Prussian railway system is a good example. It was owned by the State, and was exceedingly profitable, a very considerable fraction of the Prussian revenues being derived from this source. The advantage of such a system as compared with the system in Britain is obvious. In the one case the waste arising from competition was enormous. In the other the planning of the system as a whole eliminated a very great part of that waste.[1]

The building of a steel ship in 1863 has already been mentioned. Steel was extensively applied, at least as early as the eighties, to shipbuilding. Most of the shipping in the hands of British owners during the first third of the century came from American yards, which both in design and in general technique were superior to the British. In the forties British designers were still actually copying the designs of French ships captured in the early years of the French revolutionary wars. But an improvement in the methods of British shipbuilders had begun, and by the year of the Great Exhibition the great age of the British-built wooden sailing-ship had dawned. The fastest ships of the period might accomplish the voyage from London to Melbourne in between eighty and ninety days. In the fifties these ships were generally built of planks on a wood frame—though iron ships were not unknown, and such steamers as were built were often made of iron. Later the practice of using an iron frame became more general for sailing ships, and the famous *Cutty Sark*, built in 1869 by a Dumbarton firm, was a magnificent example of this construction, which built a faster ship than the use of iron throughout. From the late forties until 1865 the number of British sailing-ships steadily rose. That year the tonnage of sailing-ships reached its highest point. It had grown from 3,400,000 tons to a fraction under 5,000,000 in fifteen years. Thereafter, steamship construction advanced steadily. By the eighties the iron ship—mainly steamships—was being constructed in far greater numbers than the wooden ship. On 30 June 1882 the ships on hand in British yards were 55 wooden, 100 steel, and 625 iron. That same year was the first in which the actual tonnage of British steamships afloat was greater than that of sailing-ships. That amazing craft the *Great Eastern*, an iron ship 675 feet long, with both paddles and screw, had been launched in 1858. From the first she was a magnificent failure, decades ahead of her time. She ruined almost all those into whose hands she came, though she did some splendid service laying the Atlantic cable, a feat which, indeed, might never have been accomplished without her. But, though the *Great Eastern* failed in the sixties, by the end of the eighties the battle between sail and steam had been decisively won by steam. Engines were being enormously improved, and the *Servia*, built for the Cunard Company in the eighties, was 515 feet long and was lighted, to the admiration of the Victorians, with incandescent electric lamps. Parsons's invention of the steam turbine occurring in the same decade established a new principle in the building of maritime engines. By 1910 it was the rule for the big ship to be driven by a direct drive on to the shaft rather than by a piston moving in a cylinder. A large proportion of the world's steamships were built during this period in British yards—on Tyneside, Clydeside, or in Belfast.

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[1] The progress of industrialization on the Continent is discussed in further detail below, pp. 271 seqq.

The efficiency of ocean communications was further increased by two great engineering achievements, the Suez and Panama Canals. Both were originally planned by a French engineer, de Lesseps. The Suez Canal was opened in 1869, a fact which, incidentally, played a considerable part in the enormous demand in the eighties for steamships screw-driven, such as the British yards were excellently adapted for producing. Disraeli's most brilliant political *coup* was his purchase, by means of an advance of £4 million from Messrs. Rothschild, of a large block of shares in the canal; these shares had belonged to the Khedive, of whose various other efforts to raise money more will have to be said later. Disraeli's purchase gave to the British government what amounted almost to a controlling interest in the concern (which brought India weeks nearer), and interested this country inextricably in the affairs of Egypt and Palestine. The Panama Canal was not completed until shortly before the Great War. De Lesseps's plans for that canal had failed, largely because of the devastating effects of malaria among the workmen in the district in which the canal had to be made, and until the opening of a transcontinental railroad to California in the eighties the route thither proceeded still by way of Cape Horn, or else by rail across the Isthmus of Panama. The construction of the canal was made possible in the nineties, by the work of Sir Ronald Ross who was able to improve methods of fighting tropical disease, and especially the malarial mosquito, to such a degree that it became possible for Europeans to live in regions previously almost uninhabitable. English and French claims in Panama were bought out by the United States, and the canal was finally built by capital owned and completely controlled in the United States.

More results of these developments in ship-building and in ocean waterways are discussed later in the chapter. For the moment it is sufficient to notice that their effect, as that of all the big industrial and commercial changes of the period, reached out far beyond the firms or countries directly concerned. They were part of the transformation or westernization of almost all the ocean fringes of the world—a fact which nowadays is taken for granted, though it belongs to the very recent past.

Another great advance which began to make itself felt in the eighties was in the use of electric power. In 1881 the President of the Institute of Mechanical Engineers said that 'it was possible and even probable that one of the great uses to which Electric Force will be applied eventually, will be the simple conveyance of power by means of large wires'. At the time, it was in the new facilities for communication that electricity was chiefly noticeable. We have already mentioned the growth of the telegraph system, a hesitating advance in its early stages, but in the sixties spread throughout the country. In the eighties the telephone appeared. It was extended more rapidly abroad, especially in America and Germany, than in England. In most countries it was worked by private companies which in some instances did not even have a monopoly right—an example of the effects of the doctrine of unlimited competition, in that the subscriber to one system could not call up the subscriber to another in the same town. Electric light began to come into fashion about the same time. Here, too, foreign countries were ahead, and at a time when the only electric light to be had in England was that produced by private plants, in Germany large power stations were already at work. It was in Germany, too, that the initial experiments in electric traction were made. When the first underground railways were tunnelled in London, they were designed for steam trains (it was a characteristic myth that the drivers of these trains were the healthiest men in London), or for endless cable traction, like the Glasgow subway. England had revolutionized her industries on steam power and she did not see why, at this late state, she should change. But probably the most significant thing about electricity was not so much the machines which it made possible as the new system of power which it represented. It made possible the decentralization of manufactures—a movement of which as yet only a few of the effects have been realized in England—it burst the bond which grappled the factory to regions where coal was produced, and made possible the industrial developments of recent years in countries where cheap water-power is available. It was a new form of energy, though the British factory-owner, whose machinery was already humming merrily above coal beds, was not much interested in it. Similarly, in road traction by electricity developments were more rapid in America and in Germany than in England. The earliest public electric tramways were laid in the years 1883–5. By 1887 there was a total of about 60 miles of track, inclusive of all the European and American systems. Thereafter the construction of tramways and the electrification of railways progressed rapidly. In 1902 the company was formed which undertook the electrification of the London underground railways, and particularly in countries where there is abundant water-power available, electric traction has been steadily developed. By 1928, 67 per cent of the railroad track of Switzerland had been electrified. In England, where coal is more readily available and where the economies to be effected by a widespread distribution of electric power are much less certain, electrification has been applied chiefly to suburban services, where the rapid starting and stopping which it makes possible are an advantage. The growth of the 'grid' system of power-transmission which has strung together pylons over the country-side belongs to the last few years in England, though in some places abroad it came considerably earlier. Widespread electrification is one of the biggest undertakings of Soviet Russia.

Contemporaneous with the development of electric power came the development of yet another new form of power, the internal combustion engine. When Gottlieb Daimler constructed a motor-car in the eighties, the law in England still made it necessary for such a vehicle to be preceded by a man carrying a red flag. It took the motor a bare twenty years or so to establish itself. By 1910 the internal combustion engine had already been applied to aircraft, the first successful flights with machines heavier than air (other than gliders) having been made by the brothers Wright, in 1905, and the Channel flown successfully in 1909. The motor-bus was common in many cities before the War, and the growing use of road transport was already showing its effects in a widespread improvement of road surfaces. The great motor roads which are so familiar a feature nowadays date in the main from the period after the War, and it was not till then that travel by the long-distance motor-bus and the haulage of heavy goods by road began seriously to compete with the passenger and goods traffic of the railways. In this, as in almost every technical sphere, the War accelerated improvements to an unprecedented degree, and into its four years were concentrated developments which might normally have taken a quarter of a century. By the end of the War an air transport service was accepted as an immediate possibility, and the commercial air services of Europe, subsidized largely by governments in the knowledge that all aircraft will be of use in another war, have since shown everywhere steady expansion. The increasing use of machinery led to an increase in the demand for oils—a demand in part satisfied during the eighties by the vegetable oils of tropical Africa. With the progress of the internal combustion engine came the demand for oil fuel as well as lubricant, and the great mineral oil reserves began to be tapped. Petroleum is now one of the most important articles of international commerce. When it was first discovered, it was regarded as a natural curiosity, and, on the whole, as a nuisance (see p. 309). There came also a speedily increasing demand for rubber, a demand which was for a time the source of great profit to British and Dutch planters in the Far East, until after the War production in this, as in so many other commodities, outran demand, the price dropped catastrophically, and efforts were made to reduce output.

Some allusion has been made above to the tentative beginnings of a telephone service in the eighties. It was fairly soon realized that a necessary condition of success was that the service should be a monopoly—whether it was to be a public utility company or to be taken over and administered directly by the State, as it is in England. Once an efficient service was provided, the growth of that service was steady throughout all western countries, though more intensive in the United States than elsewhere. The organization of an international overseas telephone service has taken place since the War, largely as the result of improvements in wireless telephony, but by 1900 there was already an international telegraph service. Great difficulties had had to be faced, due partly to the magnitude of the task to be accomplished, partly also to inexplicable attempts made by wreckers actually on board the cable ships to ruin the cable by driving needles into it, destroying the insulation. At the first attempt to lay an Atlantic cable in 1858, the cable was broken no less than three times. A double cable was working between Ireland and Nova Scotia by 1866. Some years before this, the first messages had already been sent; but after little more than a month's service, when the congratulatory banquets were hardly over, the first cable had unaccountably failed and the whole task had had to be begun again. Success was brought at last by the adaptation of the *Great Eastern* as a cable ship. To *The Times* correspondent who sailed on her and whose vivid descriptions were flashed back as she moved farther and farther westward, her mission seemed almost a holy one—certainly one romantic in the extreme.

'All during the night', tapped *The Times* correspondent, describing the recovery of a length of cable for repair, 'the process of picking up was carefully carried on, the Big Ship behaving beautifully and hanging lightly over the cable as if fearful of breaking the slender cord which swayed up and down in the ocean. Indeed, so delicately did she answer her helm, and coil in the film of thread-like cable over her bows, that she put one in mind of an elephant taking up a straw in its proboscis.'[1]

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[1] Quoted by H. M. Field in *The Story of the Atlantic Telegraph*, 1892.

It was not merely that (as *The Times* itself pointed out) a cable might in the future resolve misunderstandings of the kind which in the past had led to war, but also that such an achievement was regarded as in itself something sacred in which the glory of God was somehow the first consideration, and the shareholders' profits (albeit important) were only the second.

It will be apparent already that the eighties were critical years of change—especially in transport and communications. They saw yet another development in this same sphere which was to have world-wide effects, the beginning of refrigeration and cold storage. It was in 1880 that the first cargo of frozen mutton carcasses reached London from New Zealand, selling at a price which showed a loss for the backers of the enterprise. The public were suspicious, but the promoters refused to be discouraged, and during the course of the next ten years frozen meat, reasonably wholesome and reasonably cheap, began to establish itself as a constituent of the working man's diet. Hitherto he had had to be content with meat at rare intervals. The invention was of revolutionary importance to the world's economy. For the new countries, like Australia, New Zealand, and South America, it meant that their sales were no longer confined to wool or to hides, but that the carcass also was marketable. The prosperity of New Zealand in particular grew enormously during the next thirty years as a result, and now that the invention has been applied also to the transport of fruit, many other regions—South Africa, for example, and California—have been affected. It was in the eighties that tinned food began to come on the market in large quantities, largely as the result of the enterprise of Chicago packers. The decade had opened with a series of bad harvests in western Europe, from which English farming was destined never to make a complete recovery owing to another great change in the world's economy. For, as will elsewhere be seen (p. 309), this was the time when grain from the United States and from Canada began to be available in huge and ever-increasing quantities which the steamship services could bring to Europe almost as easily as it was transported to the

Southern States. The critical decision which had to be made was the decision whether England should still attempt to produce an adequate supply of food for her own consumption, or should do what for the time being she was economically best fitted to do—that is to say, take food from abroad in exchange for manufactured goods. The decision, like so many other decisions of economic policy, was made, not by will, but by force of circumstances. There were profits to be made all round, profits both for the British manufacturer and also for the American or Canadian farmer, by the adoption of the second alternative, and it was not till much later that the social effects, good or bad, came to be weighed. The fact is worth noticing as an illuminating example of the way in which economic individualism works. Advances are made in a direction which is not pointed out by social policy, but influenced simply by the question whether there are or are not profits to be made. They may sometimes, as the *laisser-faire* economists had maintained, be the same thing; but they are certainly not necessarily so.

Inventions were constantly changing the character of the market. Before the telephone was invented, only men of genius envisaged the possibility of such a thing, and to the general public, so far from being a necessity, it never seemed anything more than a fantastic dream. Once invented, however, the situation was immediately changed, and in a few years it had become a necessity for almost every business man. This is true also of the inventions affecting transport. No one could afford to ignore the existence of the train in 1870, or of the motor-car in 1925. Moreover, the technique of manufacture, especially in the United States, is now based on the fact that the larger the number of any single article sold, the more cheaply is it possible to manufacture it. This is true once the process of manufacture has become mechanical, though hardly true at all of an article made by hand and requiring a considerable degree of individual skill. If the new inventions did not become almost automatically (like the railway or the telephone) an absolute necessity, the public must be persuaded that for some reason or other it needed them. Hence grew up the science of advertising. Advertising is, in fact, nothing new. The shopkeepers of Pompeii advertised. 'If a man has Pains in His head,' claims an advertiser in the *Tatler* in 1710, 'Cholic in his Bowels, or spots in his Cloathes, he may here meet with proper cures and remedies.' But the new technique of advertising goods produced in the mass is something quite different. By sheer iteration and emphasis it bludgeons the public mind into acceptance of its statements. Between 1850 and 1918 the advertising space in two average American newspapers had been multiplied in the one case by five, in the other by thirteen; and as every one knows, newspaper advertising is only one branch of advertisement, others of which had hardly begun to appear at all in the fifties and sixties, though they now speak with an even more obtrusive voice. In the days of manufacture by hand, the normal process was for the wants of the individual buyer to be studied. George Sturt describes how—actually during the period under review—in an English wheelwright's shop which had not yet begun to be affected by the new technique, the wheelwright knew precisely the purpose of the particular cart for which he was making his wheel and made it accordingly. The aim of advertising is to persuade the customer that he wants, not something different, but the same as many other people are having, or, more subtly, that if he buys some article or other he will have demonstrated that he, at any rate, knows 'a good thing when he sees one'. Advertising of this kind has been a tremendously powerful factor in the creation of modern material 'civilization'. Its influence has been in one sense democratic. In America, in particular, it has led to the glorification of the plain man, the typical fellow. Newspapers have made investigations and competitions to discover who is, in fact, the 'average American'. Mass production is leading to an artificial standardization of wants, and it has, in general, led to a uniform mediocrity of taste.

The new inventions extended the market; and they also intensified it. The brands of petrol which are sold in England are sold not only in England and America, but in Greece, in India, in Australia, and in Japan. Raw materials of some kind from abroad—perhaps from the Antipodes—are a factor in the manufacture of almost every article we buy. The New Zealand dairy-farmer does not produce butter mainly for his own island, nor even for his own hemisphere. The coffee grower of Brazil grows his coffee for the United States or for Europe—unless (as has recently happened) he grows it to be burnt or dumped in mid-ocean in the hope of keeping up the price. All this is a truism, but it is not perhaps quite so obvious that it is the extension of communications which has brought the immediate country-side into the net of commerce. A century and a quarter ago travel was by the standards of the previous hundred years or so remarkably rapid, but though individuals could get from place to place relatively quickly and easily, goods could not be moved without great difficulty, except along the line of the new canals or by sea. The train and, far more, the motor lorry have changed all that, and where fifty years or so ago the country-side was scattered with villages which were almost as self-supporting as the medieval village had been, now there is hardly a village in England of which this is still true. The technique even of the farm-hand is now often mechanical, and almost everywhere the small village industry has been superseded or profoundly modified in character. One need only mention the motor-bus, the motor-bicycle, the gramophone, the newspaper, and the wireless to indicate how widespread these changes are. This is the economic side of a phenomenon which in many ways may be best regarded as political. Many writers on the Great War have noticed that it was a war not between armies, but between peoples, in a way which no war in the past has been. During the intense submarine blockade it was a question whether English food-supplies or German food-supplies would fail first, and it is a common theory in Germany, only perhaps partly true, that the war was lost not in the fighting line but 'on the home front'. In the past villages and towns were self-contained units which only for certain purposes might be regarded as part of a larger unit. King George might fight the French, and farmer George hardly notice it. If the French had bombarded Scarborough, it would have been days before the news reached London. In the Great War the facts were very different. The larger unit existed, not only for certain purposes, but for almost all purposes. Even culturally it might be observed that local dialects were disappearing and local traditions fading. Each nation was, in a new way, conscious of itself as a unity, conscious of its own existence and reality. It is no accident that the great nationalist movements of history belong to the nineteenth century after the Industrial Revolution had begun, and that nationalism has taken its most virulent forms now in the twentieth, when the influence of the train, the motor-car, and the penny press have been supplemented by the influence of wireless. One of the questions of greatest interest for the student of present affairs is the question whether nationalism will be able to continue controlling these influences, as hitherto it has largely succeeded in doing, in its own service; or whether the interdependence of different countries and different continents will make itself so deeply felt as to undermine even nationalist sentiment.

II. THE INDUSTRIAL REVOLUTION ON THE CONTINENT

The history of the Industrial Revolution on the Continent falls into two phases. The first outburst of nationalist feeling in Europe, the French Revolution, took place in the country which had developed the most satisfactory system of communications on the Continent, or, indeed, in the world at that period. Arthur Young's descriptions of the French roads are expressed in glowing terms. Similarly the French had built in the seventeenth century canals as remarkable as any built in England in the eighteenth, and these likewise come in for his praise. The curious fact was that in spite of these excellent opportunities, commerce was hampered (until the revolution) by customs duties levied at every town and in every new district along the route it followed. One of the first acts of the Revolution was the sweeping away of these hindrances to commerce and the creation of a France which was a fiscal unit.

In Germany there had been no Roman imperial tradition, and in eastern Germany in particular the system of roads remained primitive for a very long time. But soon after 1800 improvements, undertaken by the states began to be made; and the period between 1816 and 1841 was one of great activity. During that period the amount of road maintained by the Prussian State was multiplied by three. The coming of nationalism had been, as in France, the signal for the breaking-down of the customs barriers, and was marked by the creation of the *Zollverein* or customs union. The *Zollverein* had been preceded by a Prussian tariff system, planned to unify the scattered elements out of which the Prussian State was composed, and this Prussian tariff of 1818 must be regarded as the foundation on which modern Germany was ultimately built. In 1833 Prussia succeeded in extending this union so that it included most of southern Germany, and it was the unit thus formed which was known as the *Zollverein*. The *Zollverein* naturally affected powerfully the growth of a national sentiment within its own borders, and the Prussian government, by undertaking a large programme of road-construction in the areas principally affected, fostered this sentiment with brilliant success. Not till communications within the *Zollverein* had been in some way consolidated did Prussia turn to her own eastern provinces and begin, late in the forties, to equip them also with an adequate road-system.

But by this time Germany already had hundreds of miles of railway opened, and work on new lines was proceeding rapidly. The most marked fact about the growth of the railway system of the Continent is the part played in planning and construction by the governments. When Belgium became an independent nation in 1830, her government saw the opportunities which railway building offered for national consolidation, and a planned Belgian system, financed and managed by the State, came into being between the years

1833 and 1850. It was a remarkable achievement, the prelude to that intensive industrialization which is characteristic of modern Belgium, where the density of population to the square mile is greater than in any other country in Europe. As a writer in the *Geographical Dictionary* in 1851, after describing the four different kinds of carriage on the Belgian railways—the 'Berlin' and the 'diligence' at 1½*d.* a mile, the 'char-a-banc' at ¾*d.*, and the 'wagon' at ½*d.*—remarks: 'Another point in which the Belgian railway carriages surpass those of England is, that of evenness and uniformity of motion. They move without that offensive thumping and swinging, for which the English vehicles of this kind are distinguished. Their speed varies from 20 to 30 miles an hour.'

In France State action was not so decisive. If the original system (which was not planned until the early forties, by which date some 350 miles of railway were open in France) had ever been carried out, the government in conjunction with the local authorities would have found the necessary land, and would have constructed the 'road bed', while the companies would have had to find only the rails, rolling-stock, and general equipment. Though this plan was modified to suit varying conditions the State succeeded in retaining everywhere a measure of control such as Parliament in England never attempted. By 1870 the main lines of the existing railway system had already been established; but it had been, relatively speaking, a slow business, and the railway map of Europe in 1850 shows the contrast in this respect with Germany, where construction had been very rapid and brilliantly successful. In this, too, as with its roads and tariffs, the Prussian Government saw its political opportunity. The State undertook the construction of certain lines itself, and what happened in Prussia happened in many other German States. Because the most wasteful elements of competition were eliminated, construction was much cheaper than in England. Costs averaged out at something like a third the costs of average English construction per mile.[1] The social effects

[1] Lower costs in Germany are partly explained by the fact that—in

of railway construction in Germany were greater probably than anywhere else in Europe. It opened up the country in a way which observers even in the fifties compared with the opening-up of America by railways. It transformed eastern Germany in a few decades from a feudal into an exceedingly modern industrial society. The railways were the arteries of national life, and it was they which made the creation of the empire possible.

Italy presents a striking contrast. Here nationalism was a late growth, because communications remained so long inadequate. In 1850 there were only a few isolated fragments of line as compared with whole systems in England, Belgium, Germany, and France. As the German historian Treitschke wrote: 'It was the railways which first dragged the German nation from its economic stagnation; they ended what the *Zollverein* had only begun; with such power did they break in upon all the old habits of life that already in the forties the aspect of Germany was completely changed.'[1]

But the effects of the creation of railway systems are not only social or political. They are primarily and obviously economic. An example is the growth in the prosperity of Belgium during this period. Between 1833 and 1845 the production of coal increased by 100 per cent., and during the same period the exports of cast iron, largely to France, increased by 800 per cent. The annual quantity extracted from the coalfields of Hainault alone was greater in 1852 than the whole coal production of France. Belgium became rich because it became possible to sell to France and to Germany, and to export by sea heavy materials produced at some distance from the sea. The railways not only made Belgians and Prussians better Belgians and better Prussians; they also made markets better markets, or made markets out of nothing. A recurring feature in the history of commerce is this inter-

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Prussia—railways were being laid over level country. But this explanation is only a partial one.

[1] Quoted by Clapham, *Economic Development of France and Germany, 1815–1914*. Most of the information in this section is summarized from this source.

action of development between communications and markets. Improvements in either tend to bring about corresponding improvements in the other.

In the Germany of the fifties developments comparable to those in Belgium were taking place, and developments which (like those in eighteenth-century England) were agrarian as well as industrial. Remarkable discoveries in the field of agricultural chemistry had been made, notably by Liebig, and successful methods were adopted of disseminating knowledge of these discoveries. A striking comment on them is to be found in the figures for the production of beet-sugar during the forties. It increased from 253,214 quintals in 1842 to 659,781 quintals[1] in 1849. The yield of sugar per ton of beet increased greatly, and beet came to be used widely for the distillation of alcohol, while the residue from the process proved to be an excellent feed for cattle. Nowadays such processes are familiar enough, but in the 1840's they marked a noteworthy advance—and unless a new system of transport had been in process of creation, there would have been no markets for such increased production. Moreover, the Prussian government always had an eye to the military value of a self-supporting country, and the fostering of agriculture by the government was as much a part of strategic policy as was in England the maintenance of the navy to protect, if necessary, the importation of food.

The industrial changes of the end of the nineteenth and beginning of the twentieth century were even more important than those of the earlier period. Germany's opportunity lay partly in the fact that she entered the field of industrial competition after the great mistakes of *laisser-faire* had been made and realized, at a time when it would have been necessary for English industrialists to scrap not only their plant, but their whole conception of business management, successfully to meet the new situation. In 1895 the average coal-mine in Germany employed 800 men. For that date this average is exceedingly high. The reason for it was that Germany's coalfields were for the most part being exploited by large industrial units, and that the difficulties encountered in the English fields from the overlapping of several units where a single unit would be worked more profitably, were largely eliminated. Actually as late as 1925, the Royal Commission on the Coal Industry in Britain pointed out that 'all heavy losses are confined to the smaller undertakings', and though in the interim ideas of scale had changed, the fact is significant. For the organization of the British coal industry in 1925, the unplanned development of the late eighteenth and early nineteenth century was directly responsible.

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[1] A quintal=approximately 112 lb.

A table reproduced from Professor Clapham's *Economic Development of France and Germany 1815–1914* (p. 285) will demonstrate how in heavy industry Germany became an important European producer during the generation before the war:

Output in metric tons

(000's omitted)

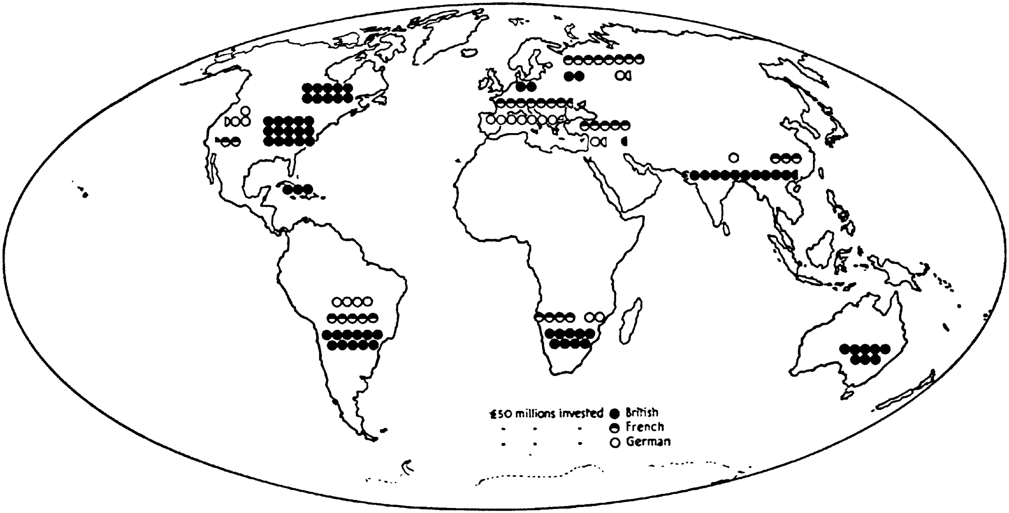
		1880	*1890*	*1900*	*1910*
United Kingdom	Pig Iron	7,873	8,031	9,103	10,172
	Steel	3,730	5,301	5,981	7,613
Germany with Luxemburg	Pig Iron	2,729	4,658	8,521	14,794
	Steel	1,548	3,164	7,372	13,149
France	Pig Iron	1,725	1,962	2,714	4,038
	Steel	1,354	1,407	1,935	2,850
Belgium	Pig Iron	608	788	1,019	1,852
	Steel	596	716	927	1,857

The figures for British production show a steady growth, compared with which, however, the rise of production in Germany is meteoric. In 1880 Germany produced considerably less than half the British output, in each of the two categories considered. Thirty years later she had not only multiplied her output by something between four and five times, but in both categories her output was much higher than the British, in one over 40 per cent. higher, in the other nearly 80 per cent. higher. Germany's iron exports during the seventies had at one time been falling off, but the invention of the Gilchrist-Thomas process (see above, p. 259) opened the way for this immense expansion. These figures apply to only one section of heavy industry. In 1914 Great Britain was still building about five times as much shipping as Germany. They apply, however, to the section in which, up to the eighties, the British producer had hardly noticed the challenge of other European producers. And they are figures characteristic of the expansion of the commercial life of Germany. The view that wars can be explained entirely by reference to economic causes is nowadays out of date; yet any one who was brought up in the England of 1904–14 will remember how vivid was the national consciousness of Germany's commercial rivalry, and there can be no doubt that such rivalries have tended greatly to embitter the international situation. In textiles the production of Britain was not seriously challenged, though the German textile industry developed a large output of the coarser materials which did not compete with British fabrics. Germany was felt by France to be a strong competitor in the production of silk, however, and by 1914 German production of this particular material was something between a half and three-quarters that of France. During the same period Germany had built up a chemical industry, the products of which were applied partly to the fertilization of German soil by artificial means, partly to the manufacture of dyestuffs. In both these highly specialized departments of production Germany was without a rival. Her electrical industry was important—so important that it has been called by the authority quoted above 'the greatest single industrial achievement of modern Germany'. This industry was characteristic in that the units in which it was organized were very large in size, and both at home and internationally were correspondingly powerful.

III. INTERNATIONAL RIVALRY

These economic changes in Europe were reflected in the international commercial rivalries outside it. During the first half of the century Britain had lent large sums of money in Europe. These loans had generally taken the form of providing countries with credits to spend in Britain, credits usually employed by the borrowers in buying machinery or railway equipment. From the seventies onwards, however, the London money market became less interested in the continent of Europe, as its interest in the 'new countries' developed; and as British financial interests on the continent declined, other European interests, and notably those of France, increased. A reference to Plate 5 will at once show the marked difference between the distribution of English and French capital abroad in the year 1914. Compared with the huge sums invested by Englishmen in Canada and the United States of America, in Southern Africa, and in Australia, the amount of French capital in those regions was small. Even in Latin South America French investments were less than half those of England. In Europe, however, particularly in Russia and in the Balkans, and also in Asia Minor, French investments were very large; much greater than those of Germany, which in 1914 still absorbed most of her savings on capital developments within her own borders.

But though the interests of different countries were predominant in different regions, that did not prevent competition. At the opening of the period covered by this chapter, and throughout the sixties, seventies, and eighties, Britain continued to maintain a policy of isolation from the rest of Europe as far as possible, investing mainly in the new countries; but during the eighties and nineties the feasibility of effectively maintaining this isolation became more and more remote. She might withdraw her investments from Europe and turn to the other continents, but in time she found Frenchmen and Germans following her thither, operating on a smaller scale perhaps, but nevertheless establishing competitive interests. Competition began first in the nearer countries, in Turkey and in Egypt. Then in the eighties the three found themselves embroiled in competition farther afield, chiefly in Africa, while in the nineties and the first decade



VI. Foreign Investments of Britain, France, and Germany in 1914. (*See also p. x*)

of the twentieth century it was Persia and China that were the scenes of the competition.

In this process, by which the economic interests of European powers sprawled over almost the whole globe, three main forms can be distinguished. It was sometimes an effort to secure raw materials; which meant an attempt to secure political control of the regions where these raw materials were produced. Thus the western region of tropical Africa is not suitable for extensive European settlement, but produces certain commodities that were in great commercial demand in the eighties and nineties, palm-oil, ivory, and rubber. These attracted the attention of European countries, and in consequence this region was rapidly absorbed, developed, and administered with varying degrees of integrity. The use made by the Congo Free State authorities of forced native labour aroused particularly strong protests, but there is little doubt that similar abuses, if not on such a large scale, occurred elsewhere, and the motive of rivalry was sometimes the 'right' to exploit.

A second feature of commercial expansion has been the struggle for markets.[1] The modern industrial system depends on the principle that the more articles of any given kind there are produced, the cheaper is the cost of each individual article. A natural concomitant of industrial competition, therefore, is the search for new markets. To some extent this aim, too, was present in the 'scramble for Africa', by which Manchester and Birmingham certainly stood to gain, but it was most obvious in China, and it was, of course, a very powerful factor in determining British policy in India. Its effects are most evident in the building of railways. Railways require concessions from governments before they can be built. In Turkey, Persia, and China, western interests were involved in a continuous struggle to obtain such concessions, and the interests concerned succeeded to some degree in obtaining the backing of their governments and thereby embroiling them in a purely commercial struggle. Sometimes, indeed, the process was reversed. In 1903 the financial interests of Britain, France, and Germany had come to an agreement with regard to the share each should take in the construction of the Baghdad railway. This agreement actually won the approval of the British government, but when the government's policy was stated in the House of Commons, it met with violent opposition, both in Parliament and in the press. In the face of this opposition the government withdrew its approval. The opposition was purely 'jingoist' in motive. It arose in quarters where there was no knowledge of the details at issue, and the claim that British interests were being unfairly treated was simply used as a means for embittering British opinion against Germany.

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[1] When nations claim the right of access to raw materials as a justification for expansion, it must be remembered that this claim is not a final one. The more industrialized a country becomes, the more vital a necessity to it are markets abroad, and the claim to them must inevitably follow the realization of a claim for raw materials.

There are, finally, many instances of finance used as a political instrument. French investment abroad was often of a semi-political character, the most noteworthy example being the large investments of France in Russia after the conclusion of the Franco-Russian alliance, and the condition imposed with regard to some of these loans that a certain definite proportion should be spent on strategic railways near the German frontier. Neither the British nor the German governments were always successful in their efforts to persuade capitalists to use their money in the direction in which its use would have been politically most effective, though such efforts were made in both countries. There are, however, some noteworthy examples of the Flag following the bank clerk. British intervention in Egypt, intervention which was later maintained as a pressing political necessity, was originally caused by the failure of the Egyptian government to make adequate provision for the service of debts which it had contracted. It was the same with the French in Morocco. The Sultan was first fettered with chains of gold, and as soon as it became evident that his commitments were too great for him to meet them, political occupation, nominally in the interests of the bond-holders, followed. One difference between the two cases lies in the fact that in Egypt intervention originally took place not in the interests of the bond-holders of one country only, but of many; and the French government were invited to co-operate in the measures of intervention necessary. Both the British occupation of Egypt and the French occupation of Morocco resulted in great improvements in the economic standards of both countries. Yet though this certainly provided further strong grounds for the maintenance of occupation (as it does in India) it was certainly not the original reason for it. The white man does not lift his burden simply because it is burdensome.

Some of these movements of capital undoubtedly tended to disturb the relations between European nations. This was notably so in the case of Egypt, the occupation of which embittered French opinion against England up to 1903, when the Entente Cordiale was made. But the reason was not that the financial interests of the two countries were opposed, but that their imperial ambitions conflicted. France had long regarded Egypt as a fruit which, ripened, would drop into her own lap. In China, too, there was great rivalry between the interests of Britain, France, Germany, and Russia; there also the chief reasons for rivalry were the suspicions which all the powers entertained of the imperial ambitions of the rest. Over Morocco, Germany and France almost came to blows, but the claim that German economic interests were seriously prejudiced by the action of the French, though this was stated as the reason for German anxiety, had very little foundation. The truth was that Germany had no sympathy with French imperialist designs. Though in almost every treaty dealing with the partitioning of economic spheres of interest in Africa, Persia, or China, a clause was included emphasizing the respect of the signatories for the independence of the peoples concerned, this was generally interpreted as meaning that the powers looked forward to a day when those peoples might become incorporated within their empires. In countries where there could be no question of conflicting imperial aims—in the South American States, for example—the investments of the various nations did not cause political rivalry.

British and German trading concerns found themselves frequently in competition, for, as has been seen, the enormous development of German industries meant an encroachment on markets which had before been entirely British; and this competition certainly tended to disturb Anglo-German relations. It took a great war to show how fallacious was the supposition that war would result in the elimination of rivals. The real rival of Britain was not Germany but the United States. Europeans scarcely realized the dominating economic position which the United States had already reached. In view of the enormous amount of British money still invested in America at the time, this is not surprising.[1] The United States was still looked upon by some Englishmen almost as a commercial dependency of Britain.

The assumption is sometimes made that imperialism is only a form of commercial expansion, and that the motives of imperialist policy are in the last resort always commercial. The public in England, France, and Germany certainly believed that imperialism carried certain economic advantages. They believed that the acquisition of territory opened opportunities for emigration, though in actual fact the main movements of emigration during this period were to areas under alien political control—a typical example being the vast emigration from the continent of Europe to the United States of America and to Canada.[2] These ideas of advantages to be won were sometimes stimulated by groups interested in a particular area. In addition, imperialism provided the upper classes with a respectable occupation, as did wars in the eighteenth century. It was an occupation which carried with it prestige and security of tenure; and countries like England, with an oligarchic tradition on which during the course of the nineteenth century democracy had been forced by circumstances, could pack off their young men who had been brought up in this oligarchic tradition to parts of the world where it was not yet out of date. All these motives were present in varying degrees. But more important than all was the development of imperialism as an 'ideal', which was, as it were, an extension of nationalism. It was much more often the notion of prestige than any economic prospects which led to the crises of the eighties, nineties, and the early twentieth century. Nationalism had existed before in Europe, but the railway, the post, the telegraph, and the newspaper gave it a new intensity and a more comprehensive grasp. The national State was far more sensitive about its honour at the beginning of the twentieth century than it had been at the end of the sixteenth, and whereas then deep national feeling had hardly existed except when called into being by some powerful outside threat, now gusts of it swept suddenly over huge areas, as crisis after crisis arose, although the problems involved were often of such a nature as to affect directly the lives of only a minute portion of the populations concerned. This extraordinary sensitiveness of the modern State, coupled with the power of rapid military or naval action which material progress has put into its hands, clearly carries with it grave dangers of war.

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[1] See diagram, Plate 5.

[2] In the post-War period the right to acquire territory for settlement has again been stressed. The decline in the European birth-rate suggests that there is no real economic cogency in this argument, and here again it is primarily a matter of prestige. Italy must have territory of her own, so it is argued, to settle her subjects now living in exile elsewhere; but the object is to increase the power of the political unit.

A further reservation is necessary when the economic grounds of imperialism and of war are being discussed. One of the conventions of diplomacy has traditionally been to whitewash policy which is essentially self-seeking or has sprung from motives quite other than those pretended. Even if the Germans had not invaded Belgium in 1914, Mr. Asquith's government would hardly have been able, in view of its commitments to France, to maintain neutrality.[1] The invasion of Belgium was therefore the occasion rather than the cause of England's entering into the war. But it was not only that. As soon as it was put before the general public it became a real issue for millions, to whom their immediate reason for supporting the government in declaring war was the violation of Belgian neutrality. Similarly in the case of India, mentioned above, it is indisputable that the original reasons for the British occupation were largely economic, and that it is maintained still largely for these economic reasons. At the same time, the justification for the British Raj is that it confers benefits on India as well as on England. The conviction that this is so is deeply rooted in the popular mind, and English opinion would otherwise not be prepared to tolerate the occupation of India. One of the duties of honest leadership in a democracy is that of exposing, as far as possible, the complexity of reasons for any given policy. What too often happens is that only creditable excuses are made public, while some of the real causes remain concealed.

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[1] Grey at least said that unless we had supported France (quite irrespective of the invasion of Belgium) he would have felt bound to resign.

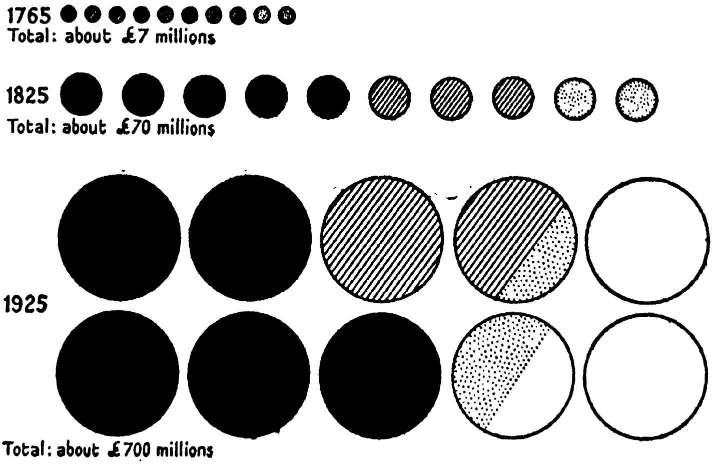
IV. THE PROBLEMS OF CONTROL

The considerable part played by the principle of competition must often have suggested itself to the reader of this chapter. Competition may be active between rival firms in one country. International commercial competition may create international dangers. Competition is the stimulus in the developing of new areas and new methods; competition may be responsible for depressing wages. But competition was always being steadily modified, and this modification is one of the most noteworthy features of the period. The replacement of competition by planned economy is visible under various forms in the growth of the multiple shop, with hundreds of branches which, thanks to the backing of the central organization, tend to eliminate smaller competitors; in the growth of municipal trading and construction; in the growth of the co-operative movement; in the growth of the great business trust, in its English form or in its continental form the Cartel; in the growth of the public utility company. Most remarkable of all is the growth of State planning and State control of commerce on a gigantic scale in Russia, where every transaction with foreign business firms passes through the hands of the government. Yet another phase in the limitation of competition has been the growth of the trade unions and the interference of the State in determining minimum wage and minimum conditions of employment, or determining plans of reorganization in industry; for besides the competition of the manufacturer to sell his goods, there was the competition of the labourer to sell his labour. The labourer was at a disadvantage. He had seldom any capital, and since unemployment has been a recurrent feature of the modern industrial system, the chances generally were that if he refused a job on the ground that the salary was too low, some one else was ready waiting to accept the lower rate. All this has been considerably changed by the advent of collective bargaining and by the increase of State interference.

Of all these phases of industrial and commercial change, it is not possible to give more than a sketch. The co-operative movement is one of the most striking economic movements of the last and the present century. The first co-operative society known was the Woolwich Co-operative Corn Mill, founded by the dockyardsmen before 1760, the plan being that corn bought wholesale should be sold to members at cost price, and that the middleman's profits should thereby be eliminated. When a more comprehensive enterprise was established at Rochdale in 1844, it was arranged that at the end of every quarter each member should be credited with a share of the profits made, and that the share of each should depend on the amount he had spent. This is the ordinary form taken by co-operative trade at present. Its adherents grew in numbers steadily in the years before the war. By 1914 there were approximately 2,800,000 co-operators in Great Britain. The war increased the strength of the movement considerably. In 1921 its numbers were over 4½ millions, and by 1930 over 5 millions. On the Continent the movement had also spread, particularly in Finland, Denmark, Switzerland, and Germany. The movement was suppressed in Italy in

1924, with the intention of excluding any national society which might withdraw allegiance from the Fascist State.

It has been a cardinal principle of socialist theory since the middle of the nineteenth century that the retention of capital—that is, the retention of factories, machines, land, &c., the 'means of production'—by private owners was a menace to the welfare of society, and that its ownership should eventually pass into the hands of the State. It was clear that some services, such as the post, telegraph, and telephone, could not be satisfactorily run except by monopoly, and that, to prevent the danger of exploitation, the monopoly would have to be subject to some form of State control. All these services passed into the control of a government department, constituted in the same way as any other of the departments of State, and though many different forms of public ownership were proposed by theorists, it was generally assumed that in some such form as this State ownership would be ultimately realized. During the last ten years the defects of the system have been widely criticized. One of the most obvious is that with the change of government at a general election the controller and even perhaps the policy of the office is changed; and in addition to this lack of continuity there is the danger of having a business concern controlled by a man who is primarily a politician. Recent opinion tends to favour control of this and similar institutions by public utility companies, the State being represented on the Boards of Directors and profits limited. An example of such an undertaking is the Central Electricity Board, which, as originally constituted in 1928, consisted of eight members appointed by the Minister of Transport, which had as its object the co-ordination of the production of electricity throughout Britain and was empowered to issue stock in order to raise funds for this purpose. The authority formed in 1933 to control the transport system of London is another example of an authority of this kind, and the British Broadcasting Corporation is another which has, on the whole, been conspicuously successful. The latter instance is certainly greatly envied by most citizens of those



VII. BUDGET EXPENDITURE 1765, 1825, 1925

Each circle represents 10% of the total for the year concerned.

Black circles show money spent on service of debt.

Lined circles show military and naval expenditure (including military and naval pensions).

Dotted circles show miscellaneous expenditure (including Civil List, expenses of revenue collection, &c.).

Plain circles show expenditure on social services (including Education, Health, Old Age Pensions, &c.).

(*See also p. x*)

countries (such as the United States of America) where broadcasting is subject to no form of public control. Public services, such as the supply of gas, water, and electricity, tend to be constituted in this way, though there are many hundreds of such services directly owned by the State—generally, in fact, owned by local authorities, such as town or county councils, to which powers of ownership have been delegated by law. In 1926 debts contracted for such purposes by local authorities and still outstanding, were £199 millions spent on housing, £145 millions on water works, £74 millions on highways, £59 millions on electric light, £46 millions on drainage and sewers, &c., £36 millions on tramways, and £24 millions on gas-works. While some of these undertakings have been most successful, others have been a burden on the rates. A characteristic example of a service very successfully run by a public authority is the Manchester gas service. Since it was begun in 1843, its capital expenditure, up to 1925, had been £5,175,522. In that same year only £2,309,000 of the capital borrowed to finance this growth was still outstanding, and the income in 1926–7 was £1,792,164. Various other forms of enterprise have been undertaken by local authorities in addition to those enumerated above; but Parliament, on the whole, has been chary of granting powers for unusual forms of municipal trading because these represented a threat to the profits of private enterprise.

Yet private enterprise itself has felt more and more the need for co-ordination rather than competition, and business units have, as a result, steadily grown in size. The 'multiple shop', which has branches throughout a district, even throughout a country, or all over the world, is one form which the growth of the big unit has taken. Woolworth's '5 and 10 cent stores' were founded in 1879. The multiple shop has made even greater headway in America than in Europe, and in 1929 sales made in the chain stores[1] of Chicago were actually 37 per cent of the total sales made in that city. The great advantages which the system has are the economies in buying which it makes possible owing to the scale on which operations are conducted, and the goodwill which attaches to products sold by a well-known firm. Its disadvantage is that it tends to eliminate the small trader, and by so doing, deprive society of what may be a valuable element. Possibly more important than the growth of multiple shops has been the advent of trusts—so called because in their original form the shareholders in various firms would agree to assign the whole of the stock to a small board of 'trustees' in order to unify the management of the group. Rival businesses were thus brought under one direction, and if a monopoly could be obtained by these means, prices could be extensively manipulated. There are now many ways in which firms unite to obtain these ends. Often there is nothing more than a 'gentlemen's agreement' between two firms to eliminate price-cutting in certain directions. In England a large number of 'mergers' have been carried out of firms carrying on the same kind of business. In Germany in the twelve years following the Treaty of Versailles the 'vertical' combine, embracing a number of firms which dealt with the same material in its different stages of manufacture, was the normal form for mergers to take; the same cartel might control, for example, a forest in which timber was produced, ships in which it was carried to its destination, mills in which it was manufactured into news pulp, and the actual newspaper for which this was ultimately used. These huge units have been largely the creation of individual ambition. There seems to be little economic reason why the manufacture of cocoa and the manufacture of soap should have been in Great Britain merged into very large units, while the mining of coal with certain exceptions has not. Some of these combines are international in their operation—for example, the British-America Tobacco Company, or the groups by which the production of oil, practically speaking, throughout the world is controlled—the Standard Oil, and the Royal Dutch Shell groups. An Association of 'International Rail Makers' was formed as early as 1884, to divide up export orders and to secure for its makers, the manufacturers of England, Belgium, and Germany, the home market in each instance. Such grouping makes it possible to plan as a unit. It makes possible great economies in distribution, and it means that the industry as a whole is much better placed in the matter of research. Its disadvantages—apart from the social disadvantage mentioned above, of the elimination of the 'small man'—are not so obvious, but are very real. Monopolies of this kind are dangerously powerful and they may become a menace to society as a whole. There is this much justification for the Nazi attack on 'big business' which has recently been threatened. A conspicuous example, which ought to be better known in England than it is, is the growth of racketeering in some of the American cities. The 'racket' is an organization which obtains the monopoly of a particular business in a particular area. Its methods consist largely in 'getting hold' of the trade-union leaders and so manipulating through them the supply of labour that it is impossible for firms which remain outside the racket to obtain a share of it. Other semi-criminal methods can, if necessary, be employed to coerce or crush recalcitrant competitors, and once the racket has been fully organized, it is possible for it to exploit without limits the users of the particular services concerned. This situation is to a large extent the result of the acute financial difficulties through which the United States has been passing, but it well shows the evils which monopoly makes possible. The development of the racket is a local post-War phenomenon, but the formation of huge business units was already beginning in the period which in this chapter is under review. Even during that period the international organization of armament firms (to take one well-known instance) was being created, and their advertisement campaigns were then, as now, responsible to some extent for international competition in armaments. It was by no means a rare occurrence for the same combine to sell some particular form of offensive weapon to one power, and then canvass its potential enemies for orders for a similar weapon. This is an obvious case where complete political control of some kind, perhaps by an international authority, is essential, and must come in the not very distant future.

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[1] This is the American term for the multiple shop.

The first tentative efforts of the workers to protect themselves by united action from the disastrous efforts of the Industrial Revolution date from the last years of the eighteenth century, and the history of trade unionism might have been very different had not the panic caused in England by the 'Terror' in France led to the passing of Acts forbidding the workers to combine. This repressive action was a contributory cause of the extraordinary bitterness of the years immediately following the Napoleonic wars, and though the 'Combination Acts' were repealed in the twenties, the magistrates under existing statutes retained wide powers of checking any such movements. As a consequence, trade unionism had in the following generation the character of a secret society, and acts of violence were by no means uncommon though they were not countenanced by the more responsible leaders. The Amalgamated Society of Engineers was formed in 1851, though it was not till the legislation of 1871–5 that the position of the unions was definitely established by law, and their right to 'peaceful picketing', in the event of strikes, confirmed. At the time these laws were passed, trade unionism was aristocratic. It was the skilled workers in the grades which were relatively highly paid who formed the backbone of the movement. In the following twenty years a great change took place. The public conscience at last began to be affected by the spread of knowledge of the conditions under which the unskilled worker lived. The first signs of a third party in Parliament began to appear, and as trade unionism spread among the unskilled workers it was met with a considerable amount of sympathy from the general public. A turning point in the history of the movement was the great dockers' strike of 1889, a strike which, thanks very largely to the support given by public opinion to the dockers, was substantially successful. In the first decade of the new century the trade unions, with a central organization playing a large part in directing the policy of individual unions, were tasting their power; and the dangers of the position were increased by the 'Taff Vale judgement' by which the right of the employer to take legal action against a union for offences committed in the course of strikes by its members was recognized, and the Liberals returned to Parliament in 1906, pledged to reverse by a new Act the effect of this judgement. The rights of the unions were restored by the Trade Disputes Acts of that same year, and when a few years later the courts declared (in the famous 'Osborne' case) that the use of trade-union funds for political purposes was illegal, that judgement too was substantially modified by another new Act, which gave the unions the right to make a political levy, though any individual member of the union might, if he chose, refuse a contribution for this purpose. Yet, though the unions were building up their powers, the conditions of life for millions of wage-earners were still bad, and rising prices had accentuated their difficulties. Moreover, the workers were now very much more conscious of the facts than they had been fifty years before. The effects of universal elementary education were beginning to make themselves felt, and political consciousness was beginning to have a far broader basis in the State. The improvement in social conditions in itself made the workers acutely conscious how bad they still were. An interesting investigation was carried out during the depressed year of 1932, in a village in Austria where unemployment was almost universal, and where in many houses conditions of actual starvation prevailed. It was found that in those houses which were most crushed by poverty, political feeling, instead of being intense, was almost non-existent, and that a complete apathy took its place. It was in those houses where there was at least something to eat that discontent made itself felt. Karl Marx assumed that it was the evils of social environment which would finally drive the 'wage-slaves' to seek emancipation by violence. In fact, what often seems to happen is that vivid political consciousness is the result of improving conditions.

However that may be, the beginning of the Great War almost certainly averted an immediate internal disaster in this country. One of the few things to be said for war is that it makes possible social changes which, without it, could not work themselves out except in violence. In Germany such changes were obviously threatening. German business prosperity had built up a middle class which nevertheless lived in complete social subjection to the aristocracy—the military and land-owning caste; and both the socialism of the immediate post-War years, and also National Socialism, have been in their essence middle-class movements, the assertion of the rights of this class as against those of the caste above it. In pre-War England something of the same social cleavage was evident between the 'public school' class and the rest of the country. That cleavage has been virtually destroyed by the War, and whatever one may feel about the political forms established in this country, there can hardly be any disputing that socially it is a more democratic place than it was twenty-five years ago. At that time crimes of violence directed against the rich, because they were rich, were by no means unknown. Disraeli's different nations (see above, p. 232) are gradually ceasing to exist. The War was the turning-point in their history. If the War had not taken place, one of them might have had to die fighting the other.

We shall discover in a subsequent chapter indications that in the sphere of international commerce also great changes had by 1914 become inevitable, and it is probable that unless the War had occurred, these changes also would not have come about without violence. The direction they would take had long been foreseen. The Kaiser had warned English diplomats as early as 1902 that the United States of America was England's real rival, and in a sense he was right. And though when the War happened, England and America fought on the same side, one of its results was to assure the commercial dominance of America when it was over. Similarly, the huge increase in manufacture outside western Europe and the eastern states of the United States of America was already due and almost overdue when the War began. It was a natural process that Japan should emerge as one of the great manufacturing nations of the world. The War created a chaos, but there were certain big changes imminent which even in 1914 might already have been foreseen, and which even four years' chaos could not prevent. On the contrary, it enabled them to take place with an unobtrusive rapidity which made it impossible to check their course.

XI

BANKING AND CREDIT IN THE NINETEENTH AND TWENTIETH CENTURIES

UNTIL the eighteenth century commerce was dependent very largely on the available supplies of gold and silver. When additions to these supplies appeared, commerce prospered, and when they were withdrawn from circulation it tended to decline. There was just this amount of truth in mercantilist theories. The great expansion of commercial activity during the nineteenth and twentieth centuries has been financed mainly by the creation of credit rather than by the discovery of new supplies of gold, important though these latter were in increasing the reserves of the world's banking system. In the eighteenth century banking methods had been relatively clumsy, and almost the only form of bank money in regular circulation was bank-notes. The tendency from early Victorian times onwards has been to eliminate all bank-notes except those of the Central Bank, or the "Treasury notes' which are not strictly bank-notes at all, but simply a form of token currency like silver and copper. In place of the use of bank-notes has come an increase in the use of cheques, and it is chiefly in this way that the economies of cash necessary for the modern credit system are effected.

The dependence of industry and commerce on credit has produced important results. We have already seen (for example in the history of the 'South Sea Bubble') that credit depends chiefly on the confidence of its users and that easy financial conditions therefore are to some extent no longer a matter of gold supplies, but of healthy psychology. A noteworthy characteristic of modern production has been the 'trade cycle', the steady alternation, that is, of periods of boom and depression, and though external influences regularly play a large part in the causing of these alternations, it is generally held that in part the credit system itself is responsible for them. The symptoms of the trade cycle are many. High prices alternate with lower prices, employment with unemployment, 'cheap' money (i.e. low rates of interest) with 'dear' money (i.e. high rates of interest). In the nineteenth century it took on an average approximately ten years for 'the wheel to turn full circle' in these alternations. So far as the evidence goes for the present century this period would seem to be shortening somewhat, though abnormal conditions created by the War make it difficult to speak with certainty.

'Boom' periods (that is, periods of industrial and commercial confidence or over-confidence) have been due sometimes to external causes, sometimes they have been movements of mass speculation, encouraged by the fact that money can be borrowed at a cheap rate and by the contagious effects of speculation happening all round. When a considerable number of people started buying railway shares in 1845, everybody became eager to buy them, and the shares soared to fancy prices until the speculative character of such prices was realized. Similarly in 1890 the market was excited by the possibilities of investment in South America and in particular in the Argentine. Any shares available were snapped up, and changed hands at ever-increasing prices; until a wave of profit-taking set in, the upward movement of prices was checked, doubts began to be entertained about the ability of new ventures to pay, shares were offered for sale all round so that prices fell disastrously, and Barings, the banking house chiefly involved in Argentine business, became unable for the time being to meet their liabilities and were forced to suspend payments.

Both boom and crisis affect a wider world than the business interests immediately concerned. A boom will mean that there is plenty of credit available, and that prices rise, and this in itself is an encouragement to every form of production (see below, p. 389). Conversely, to check speculation it is necessary to put up rates of interest on borrowed money; but dear money means the price of goods falling, and that is discouraging for production and may lead to unemployment and widespread distress. It would appear, therefore, that part of the cost to society of unregulated production, of a system which depends solely on individual enterprise and the possibility of profit for stimulus, is this liability to crisis. The manufacturer producing cloth for sale in England may have to pay more for the money he borrows because the general public has been investing somewhat recklessly in, say, South American enterprises, and may, therefore, have to reduce the scale on which he is producing because he cannot afford the increased cost of the finance of his original output. His reduced production bears no direct relation to the amount of cloth that is required nor to the working capacity of his workmen or of his machines.

The 'periodicity of the cycle', that is, the regularity with which boom has in the past been followed by slump, seems to show that there is some cause at work more inherent than any mere external influences. This is generally explained as the encouragement of over-production by cheap money at a boom period, and it is said that such over-production brings with it its own retribution in the form of a necessary fall in prices as the market becomes flooded, and so of itself inevitably leads to slump. Over-production certainly appears to be a feature emphasized by every slump; but here, too, it must be remembered that the term over-production has no necessary relation to the actual need for goods, but only to the immediate ability of customers to buy them. There may thus be so-called 'over-production' of food at a time when millions of people throughout almost every country in the world are living on the edge of starvation.

The early developments of banking, which is the basis on which the system of credit rests, have been outlined in an earlier chapter, and in the bursting of the South Sea Bubble we have seen the first modern financial crisis in this country. Gradual recovery from this crisis had been followed by a steady growth in the number of private banks—Barclays and Lloyds being two which date in their original form from the eighteenth century; joint-stock banking was still the monopoly of the Bank of England. The business conducted by these private banks grew steadily in volume, and by 1800 it had become necessary to establish a clearing house. There are two or more banks concerned, not one only, in most banking transactions. Cheques are, therefore, sent by the banks into which they are paid to the Bankers' clearing house, and there the accounts of the various banks are balanced against each other. Even the resultant balance is not paid in the form of coin. The big banks each have an account with the Bank of England, which is the 'Bankers' Bank', and any balance due from one to the other will be paid in the form of a transfer in the books of the Bank of England of so much credit from the account of one bank to the account of another.

The establishment of the London clearing house was a mark of the increasing volume of business transacted by the banks and also greatly facilitated that business. And in the next few generations the system gradually simplified itself as smaller banks became absorbed by the larger.[1] Many

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[1] The following table, based on that in the article 'Banking' in the *Encyclopædia Britannica*, 14th ed., shows both these processes happening in the nineteenth century:

Business in the London Clearing House

Date	*Number of Clearing Banks*	*Value of Cheques cleared (in millions of pounds)*
1839	29	954
1899	19	9,150
1906	18	12,711
1926	10	39,825
1927	10	41,551

of the small county banks had been forced to close down during the crises of the Napoleonic wars. And even the largest, the Bank of England, had had to face difficulties. During the Napoleonic wars it lent to the government, over ten years, the sum of £10,000,000. The supply of gold was inadequate, and in time of war there is always a tendency for gold to be hoarded in private hands. Early in 1797 a panic started, and owners of notes began to present them at the banks in the hopes of securing gold in exchange for them. What happened next is described by the Committee appointed later to inquire into the collapse:

> 'The alarm of invasion (which, when an immediate attack was first apprehended in Ireland, had occasioned some extraordinary demand for cash on the Bank of England in the months of December and January) began in February to produce similar results in the north of England. Your Committee find that in consequence of this apprehension, the farmers suddenly brought the produce of their lands to sale, and carried the notes of the County Banks, which they had collected by those and by other means, into those banks for payment; that this unusual and sudden demand for cash reduced the several banks at Newcastle to the necessity of suspending their payments in specie, and of availing themselves of all the means in their power of procuring a speedy supply of cash from the metropolis; that the effects of this demand from the Newcastle banks and the suspension of payments in cash soon spread over various parts of the country, from whence similar applications were made to the metropolis for cash; that the alarm thus diffused not only occasioned an increased demand for cash in the country, but probably a disposition to hoard what was thus obtained; that this call on the metropolis through whatever channels directly affected the Bank of England, as the great repository of cash, and was in the course of still further operation upon it when stopped by the Minute of Council, of the 26th February.'

This is an account of what is liable to happen to the credit system in time of any crisis. The system depends on confidence for its proper working. It is based on the knowledge that while such confidence lasts, it is not only safe, but essential to the requirements of trade, to create more money than there is gold in the banks. Trouble arises when the owners of that money, which takes the form of claims to gold, all try at the same moment to enforce their claims. In 1797 gold payments had to be suspended. The Bank was legally absolved of its obligation to give gold for notes, and cash payments were not resumed till twenty years later, after the Napoleonic wars were over (1819).

Various other steps in the history of banking in the nineteenth century deserve notice. In 1833 the Bank of England lost its monopoly of joint-stock banking in London,[1] (though with the proviso that no new bank within a certain radius from London should issue bank-notes) and in the following year two banks which have since amalgamated, the London County and the London and Westminster, were founded. By this time it was generally agreed that the issue of bank-notes was not a function which could safely be left in the hands of many banks, but that it must be concentrated in those of the central bank of the country. A process was thereupon begun by which this end was ultimately achieved, and the note issues of the various banks were taken over by the Bank of England. Since there were profits for the new banking firms to make in financing trade and creating money in the form of overdrafts and the cheques representing them, the privilege of issuing notes was more readily given up. The National Provincial Bank (founded 1833) and the Midland Bank (1836) both date approximately from the same time.

Not long after, the position of the Bank of England was reviewed and restated in Peel's famous Bank Charter Act. By this Act a distinction was drawn between the note-issuing department and the banking department, and the amount of notes which might be issued was regulated. Notes had to have a 'cent per cent.' cover, that is to say, a sovereign's worth of gold for each note issued, except for a 'fiduciary' issue, which had a backing of government securities, up to the sum of £14,000,000, which might be increased as the Bank of England took over note issues from the smaller banks. This 'fiduciary' issue, called by that name because it had not got a gold backing, and therefore depended for its value on people's faith in it, might not be increased unless the Prime Minister and the Chancellor of the Exchequer of the day, acting together, gave the Bank special leave for such an increase. This operation was known as the 'Suspension of the Bank Act'. The Act was temporarily suspended in this way several times during the financial crisis of the nineteenth century, but the best-remembered instance of suspension is probably that of the outbreak of war, 1914, which proved to be not a temporary but a permanent measure. When, in 1928, the position was once again regularized, the fiduciary limit up to which notes might be issued without gold cover was fixed at £260 million, and the significance of this change will have to be discussed later.

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[1] It was this which made possible the gradual formation of the huge units which are the rule in English banking to-day. A private concern is necessarily limited in size, and size has certainly greatly increased security. English banking practice is in this respect contrasted with American (see p. 300).

In foreign countries the recent history of banking has in many respects followed a rather different course. Both in France and Germany the development of banking did not begin on any scale till the mid-nineteenth century. In Germany, and to some extent in France, the banks have had a much more intimate connexion with industry than in England. English bankers, while they have been ready to supply working capital for industry, have been chary of extensive investment in industrial shares. They have not been prepared to finance a new industrial unit from its inception. In Germany, however, this has been a common practice. Banks and industry are closely identified, their directorates being often 'interlocked' and large sums of bank capital being actually invested in industry. The German banks thus, to a considerable extent, own the German factories. In many respects this system has proved unsatisfactory. It is not so flexible as the English system, in which a greater proportion of capital is 'liquid' and is, therefore, more rapidly accessible at times of crisis. On the other hand, it is doubtful whether German banking would have survived the shock of the mark's collapse in 1923, if its assets had not been to a large extent solid property. The value of the mark might fall to nothing, but the value of a factory, so far from falling, was in the long run probably enhanced by the process.

In the United States banking has had a more chequered history, as the banks have been called upon to undertake more exacting tasks, than in any other great industrial country. They have had to finance far more rapid and extensive development than elsewhere and banks have kept in touch with local needs only by confining themselves to local problems. Thus the number of banks has multiplied instead of contracting during the last two generations, and whereas in England the banks could be counted on the fingers, in the United States in 1928 there were more than 26,000. Though this system has no doubt enabled the banker to maintain a close observation of local needs, it has meant that the reserves of the individual banks are relatively small, and that at a time of severe crisis the number of bank failures may run, as it did at the beginning of President Roosevelt's term of office, literally into thousands. To some extent these defects have been mitigated by the creation of a Federal Reserve System standing behind a number of the local banks, and the Federal Reserve Banks make possible a comprehensive control of the issue of notes.

BOOK IV

THE NEW COUNTRIES

XII

AMERICA SINCE THE WAR OF INDEPENDENCE

I. THE UNITED STATES OF AMERICA

THE territory of the United States, after the War of Independence, was confined to a comparatively small area. The country's principal line of communication was the Atlantic and its inlets, and the rivers which flowed down to them. Organized inland transport was practically non-existent; manufacture, thanks partly to the effect of the mercantile system, almost unknown.

The occasion of the War of Independence had partly been a regulation of the government which prevented expansion into the Ohio country (see above, p. 199), and Washington (who lived in 'the age of canals') himself had foreseen the opening of this great region to economic development by a canal to connect the Ohio with the Potomac. It remained to be decided whether expansion should be controlled or uncontrolled; whether the vast resources of the interior should be regarded as the heritage of the State, which might create out of their development a social Utopia such as some of the early presidents visualized; or whether they should be regarded rather as belonging by right to any individual who cared to occupy them and who had the enterprise to make what he could out of them. It is hardly surprising, in view of the tendencies of the period, that the second alternative was that which soon held the field.

Long before the railway joined the Atlantic to the Pacific coast, a few settlers penetrated through the great plains of America to the western coast. In 1820 a certain Major Long, who explored the heart of the continent, reported that the prairies, which to-day are one of the greatest productive areas of the world, were 'almost totally unfit for cultivation'. The first covered wagons made the journey from the Missouri to the Rockies in 1830. Three routes across the continent gradually came into use. There was first the Oregon trail which struck north-westwards from Missouri to the North Fork River, crossed the Rockies to Fort Bridger, and then made its way down to the coast roughly by the course of the Snake River. Secondly, there was the branch of this known as the Californian trail, which broke off from it north of Salt Lake and reached the coast in the region which is now San Francisco; and thirdly, there was the Santa Fé trail leading south-west from Missouri, and then, under the name of the Old Spanish trail, crossing the Sierras to Los Angeles. Both the Californian and the Old Spanish trail were entirely in what was then, and remained until 1848, Mexican territory.

The labour of the trans-continental journey was portentous. What the settlers produced had to be consumed on the spot, the cost of transport being far too great for it to be worth exporting to the eastern towns. The early settlements, apart from those of fur-traders and missionaries, were mostly settlements of those who had come out to seek a refuge in complete isolation. The settlement of Mormons in the barren country of the Salt Lake Valley is a typical example from the first half of the nineteenth century. They had come to practise their religion and their customs (designed to produce an ever increasing supply of latter-day saints) untroubled by what the rest of humanity might think of them. The early pioneers all had to face a like isolation, and it was not a case of rapid development and mushroom fortunes, but of solitary hardship, and often of danger, with a property such as the settler could make for himself out of the virgin country as the only material reward.

Yet though settlement took place slowly, it was extensive enough by 1840 for the authorities to take an interest in it. A large area of the country in which settlement had begun belonged to Mexico, while in the northern area the U.S.A. found herself in conflict with the British Hudson Bay Company. Matters were brought to a head in the south, where, in what is now Texas, extensive American settlement had taken place on territory which belonged to Mexico, when failure of negotiations to buy the area from Mexico was followed by a revolution in the new territories. The United States government, under an 'expansionist' president, seized a pretext for declaring war on Mexico, and as a result, Texas, California, and Arizona passed to the United States (1848). During the course of this war the dispute with England was at last settled. The boundary between American and British territory in the west was fixed along the forty-ninth parallel.

These new territories were only sparsely populated. For practical purposes, in 1840, the settled region of the United States ended with the Mississippi basin. West of the ninety-fifth parallel of longitude no large area had an average population at that time of as much as two persons per square mile. From that time to this, however, there has been a steady spread westwards, and with each census taken, the centre of population has shifted farther west.

In the early years of independence, when land travel was still impracticable, means of communication were largely by water. Water transport was of great importance also in the opening-up of Canada (see below, p. 314), but whereas the Canadian rivers were most of them frozen during the winter months, and the rapids made navigation by canoe the only possibility, the great rivers of the United States, and notably the Mississippi–Missouri system, could be used by much larger craft. The new steam-boats with their clumsy wooden paddles were more suitable for river navigation than for ocean voyages. Full use was made of them, and the savings which resulted, both of time and freightage costs, was enormous. The Mississippi has claims to be considered the home of steam navigation.

New York had already taken the lead as America's chief port for exporting, thanks to the value of the precious metals which passed to Europe by that route; but apart from the precious metals, the exports from New Orleans in the middle of the nineteenth century represented a value 50 per cent. greater than those of New York. In 1847 the steam tonnage of the Mississippi valley exceeded that of the whole British Empire. Thanks to these facilities, the production of cotton began to extend westwards from South Carolina and Georgia, to the lower Mississippi valley, and in 1860 the centre of the crop was the Alabama–Mississippi–Louisiana district.

Of great importance also were the waterways of the north, the Great Lakes, though their value was lessened because the only connexion with the ocean lay through the estuary of the St. Lawrence, which was ice-blocked during the winter months, and which passed through Canadian terrritory. About the year 1816 it was determined to open the commerce of the Great Lakes to New York by a canal following the line of the lowest watershed between the Atlantic States and the lakes. In 1825 the Erie canal was completed. Two years after it was opened, the Governor of Georgia complained that 'wheat from New York was being sold at Savanna more cheaply than wheat from Central Georgia'. In agricultural districts such as Ohio, farm produce rose in price 50 per cent. with the beginning of canal transport.

During the time of the Napoleonic wars American industry had benefited greatly, and in some branches of commerce America more than kept the lead she then won. The famous 'clipper' ships which she built were in demand all over the world, and till as late as 1880, when the steamship began to replace the sailing vessel, the American mercantile marine remained supreme. Her younger industries, however, notably the manufacture of iron and steel, struggled hard against foreign competition. They were inefficiently run, and it was sometimes fifty years before processes invented in Europe were adapted for American production. Heavy duties were imposed on imports from abroad of goods in this class, but nevertheless foreign goods were in demand, thanks to their quality. There was thus a difference of interest between North and South. The North demanded higher tariffs, the South, which lived mainly by the production of cotton, stood to lose by any step which put up the cost of living and the expense of keeping slaves. Economically, the difference between South and North was not merely the difference between the colour of the labourers. It was a difference between an old and a new society, between a region of large estates and country gentlemen (see above, p. 183) and a region of new industries and mechanical enterprise and ambition. In the South had originally been concentrated the riches of the country. The Industrial Revolution in England had expanded almost limitlessly the market for United States cotton, and the invention of the cotton gin (1793) made it possible to use commercially the short staple cotton which could be grown on the uplands in the interior of the Southern States. In 1791 the total cotton crop had amounted approximately to 2 million pounds. By 1826 it was 330 million pounds, and not much later 450 million.

In 1858 a United States Senator, Senator Hammond, made a speech in which he declared, with reference to the possibility of war with England:

> 'Without firing a gun, without drawing a sword, should they make war on us we could bring the whole world to our feet. What would happen if no cotton was finished for three years? I will not stop to depict what every one can imagine, but this is certain. England would topple headlong and carry the whole civilized world with her. No, you dare not make war on cotton. No power on earth dares make war on it. Cotton is King.'

His words give a vivid idea of the prosperity of the South at the time. The civil war marks the end of that prosperity, and the beginning of a new age, the industrial age of America.

The enormous growth in the market for cotton made slave labour a fundamental element in the economic system of the South, and it became an acute political question whether new territories, as they came to be added to the Union, should allow slave labour or not. Matters were brought to a head with the election of Lincoln as president. Lincoln believed that in the end abolition throughout the Union must come. 'A house divided against itself', he said, 'cannot stand. I believe that this government cannot endure permanently half slave and half free.'

It is inconceivable nowadays that the Southern States could resist for any length of time the power and pressure of the North. In 1861 the South not only could do so, but did do so for four years. The South was in 1860 at the zenith of its prosperity, while the resources of the North were only beginning to be exploited. Here are the figures for the exports of America in the years 1802 and 1860:

Value, in millions of dollars, of exports from the United States

	1802	*1860*
Vegetable foods	13	27
Cotton	6	191
Tobacco	6	15
Animal products	3	20
Fish products	2	4
Forest produce	4	13
Manufactures	2	37
Iron, steel, &c.	..	5

An examination of this table brings out several interesting facts. One is, indeed, that the export of American manufactured goods was already beginning to assume some importance, the value of these exports having risen during the period from 2 to 37 million dollars, at which figure they represent the second largest item of the exports of the country. But another and even more significant fact is that in 1860 the value of the two most important items in the Southern exports, cotton and tobacco, was together twice as great as that of all the other exports put together of the whole of the United States.[1]

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[1] Exports for 1900 may be conveniently given here for comparative purposes:

	(Value in millions of dollars, as above)
Breadstuffs	262
Cotton	241
Provisions (including dairy produce)	184
Iron, steel, &c.	121
Oil	75
Copper, &c.	57

The victory of the North had hardly become certain when Lincoln was shot from the stage at the theatre and carried out dying. The loss of his leadership was a great blow to the cause of reconstruction, and the North adopted the vindictive policy of enfranchising the Southern negroes and disfranchising the whites. Not till 1876 was white self-government restored. The effect of the mishandling of the problem has been to saddle the United States with a serious colour-problem. The whites of the Southern States still think of it as essential to their existence that the negro should be repressed.

But if the war did not solve the problem of the negro in the United States, it solved the issue between the systems of the North and South. The future of the States lay mainly with the industrial area between the Great Lakes and the Atlantic, and with the farms and ranches, farmed with white labour and with machinery, which were developing in the prairies. The railways were to make a unit of a region continental in extent and one which offers a vast home market within which the manufacturer enjoys the benefits of free trade. Its natural resources seem almost inexhaustible. There is hardly a mineral of which it has not an exportable surplus, tin and nickel being the only significant exceptions.

For the exploiting of these resources the creation of a railway system was an urgent necessity, and with the end of the Civil War construction was pressed forward. The great age of railway building in the United States lies between the dates 1860 and 1890. In 1850 there were 7,000 miles of railway in the Eastern States, and another 1,000 in the upper Mississippi Valley. By 1860 the mileage had grown to 30,000; but between 1860 and 1890 it increased to approximately 200,000 miles. The first trans-continental railway, the Union Pacific, was begun in 1865 and completed in 1869. As with the railways of Canada (see below, p. 317), it was impossible for private enterprise to undertake construction unaided. They were not planned, as were the English lines, to tap the produce of an area already highly developed, but to make the settlement of new regions possible. To the government they were performing a valuable service in joining the east and west coasts of the continent. They were aided, therefore, by large grants of land, twenty square miles to each mile of track that they opened. Accordingly they stood to gain enormously, either by the lease of land for settlement, or even by a free distribution, which would ultimately bring them in not only passenger, but the much more important goods traffic.

Meanwhile, invention had come to the aid of the farmer and the Industrial Revolution was affecting agriculture. At the Great Exhibition in Hyde Park in 1851, one of the novelties on view was the automatic reaper; this, and the sewing machine, were the two American exhibits which probably attracted most attention. The invention of the reaper and the development of agricultural machinery in general, as of the harvester, the steel-toothed cultivator, and steel wire fencing, gave a new importance to 'extensive' as opposed to 'intensive' agriculture. The new agriculture was practised on a large scale without the spending of intensive effort. In regions such as Europe, India, China, or Japan, where land was dear, intensive agriculture had to be practised, but where land was so cheap as to be had almost for the asking, it was extensive.[1] The prairie farmers were working virgin soil. The figures showing the increase in the produce of the central plains are astonishing. Grain shipments from Chicago increased during the years 1850–60 from 2 to 20 million bushels. Twenty years after the appearance of the agricultural reaper the refrigerator car was patented. Whereas in the past only produce which would stand travelling—metals, textiles, grain, &c.—could make long journeys, thenceforward not only fruit, but meat could travel from one end of the world to another. The discovery of the principle of refrigeration laid the foundation of the prosperity not only of the stock traders of the United States, but of the Argentine and of New Zealand. In the old countries these agricultural developments were to have results as disastrous as they were beneficial in the new. It was during the eighties that the competition of the prairies really began to be felt in the farms of Wiltshire and East Anglia, and from that time the area in England under wheat steadily declined.

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[1] A good illustration of this difference between extensive and intensive cultivation is to be found in the average yield per acre on the corn land of the United States of America, and in the United Kingdom. In the United Kingdom the yield is 35 bushels per acre. In the United States of America it is 15 bushels per acre.

The basis of the economic life in America is the farm. There are in the United States something like 6½ million farms, mostly between 50 and 500 acres, and two-thirds of these farms are cultivated by their owners. They produce one-fifth of the world's supply of wheat and huge quantities of maize, the latter being used not so much for export as for feeding stock. The cotton crop is still of great importance, though no longer the foundation of the country's wealth. Tobacco is also important, grown in the States to the north of the cotton belt, while enough rice is now grown in western Louisiana and eastern Texas to supply the whole needs of the United States and to have some surplus for export. The fruit-farming industry is also extensive and the quantities of fruit canned and dried have more than doubled since 1910. The United States produces a wool clip one-third that of Australia, almost all of this wool being manufactured by American firms.

Mention has already been made of the enormous mineral wealth of the United States, and here, as with her manufactures in general, the Great War provided her with great opportunities for expanding her markets at the expense of the European industrial nations. Her coal resources are greater than those of the whole of Europe, and in 1927 she produced 518 million tons, over twice the British output. In 1860 her production had been 14 million tons. With other minerals, copper, lead, zinc, sulphur, and aluminium, there is the same story of gigantic expansion. In 1853 oil was discovered. A well was accidentally tapped which spouted fifty feet high. 'It was found to be useful', we are told, 'only medicinally, and was bottled and exported for that purpose.' Since that date the internal combustion engine has appeared. Oil-refining has become one of the major industries of the United States, and she produces over two-thirds of the world's supply.

The bare catalogue of these natural resources is impressive. Their development has raised the wealth of America to something far beyond the dreams of the nations of Europe in the eighteenth century. Side by side with the development of natural resources has come an immense growth of industry. Here, too, the Great War gave America her chance. Before the War, Germany led among the iron and steel manufacturers of the world with an output of 5½ million tons, as against 5 million tons from the United Kingdom, and 2¾ from the United States. Now, however, it is the United States which takes the lead, and after her comes the United Kingdom, with Germany in the third place. In 1928 the United States' output of crude steel and of pig-iron was six times that of Great Britain. Other important branches of industry are the manufacture of textiles, cars, and electrical apparatus, and shipbuilding. Leather is one of the few raw materials which the United States of America produces in insufficient quantities for her manufacturers' needs, and another is rubber, for which the manufacture of tyres has increased the demand something like ninefold since 1914.

The famous Monroe doctrine is thus an economic as well as a political possibility. America can afford to stand aloof, as she does, from the League of Nations. The closing of foreign markets can hit her very hard, but it will never ruin her. In this respect her position stands in a most interesting contrast with that of Great Britain. The size of the United States market reserved mainly for her own manufacturers to supply has had a remarkable effect on the character of their work. Mass production came into being because there were mass markets. The business organization of the United States has during the last quarter of a century been much more highly concentrated and rationalized than that of any other manufacturing country. Its energies have been directed to producing a great number of articles of a single pattern, rather than a smaller number of different patterns. The most famous example of this type of organization is the Ford works, in Detroit. If they attempted to cater for the individual tastes of every purchaser, it would not be possible to produce a car of the quality they offer even at a much greater price. The system depends on 'standardization', on producing by machinery great numbers of similar parts that can be assembled, largely by machinery, into great numbers of similar cars. In order to persuade its customers that what they really want is not something different from what their neighbour wants, but the same thing, it employs advertisement on a gigantic scale. Modern advertisement is very largely derived from the United States. The European manufacturer is from the outset at a disadvantage, for neither in point of size, nor in point of the wealth of the ordinary man, is his home market anything like so good as that of the United States of America.

But the immense area of United States territory creates economic problems as well as solving them. Commercially, size is on the whole a considerable advantage. But it means that local interests make themselves powerfully felt. Individual States resent interference in their rights by the Federal authorities. They are helped in this by the constitution, which gives the smaller or the thinly populated States as loud a voice in the Senate (though not in the House of Representatives) as that of the densely populated States. Thus there are two police systems, that of the Federal Government existing throughout the Union, and that of the individual States within the borders of each of them. In many matters the two cooperate, in some they are frankly opposed. There was a block of States in the east, including New York, New Jersey, Massachusetts, and Connecticut, which was always opposed to prohibition while that was in force, and where, in consequence, the local police took very little action in the enforcement of the law, and sometimes even thwarted the Federal authorities' efforts to carry it out, while in the majority of States in the middle west, which had always been in favour of prohibition, it was strictly enforced. Economic interest has drawn together the farmers of the south-east and the farmers of the middle west, and on points of taxation these interests often group themselves together against the industrial north-east.

The original name of New York was New Amsterdam, and it was a Dutch city. In the seventeenth and eighteenth centuries the English element succeeded in absorbing the non-English elements. In the nineteenth century they became far too numerous for this to be possible. From 1840 onwards the rate of immigration from Europe to America was very large. In the sixty years before that date, something less than a million European immigrants had drifted across to America, while in the forty years following it there was a steady flood of immigration, amounting to a total of between 9 and 10 millions, of whom 24 per cent. were English, Scotch, or Welsh, 19 per cent. Irish, and 32 per cent. Germans—the majority, that is to say, were still 'Nordic'. Since 1880 the sources from which European immigration has come have largely changed. In the ten years 1900–10, 77 per cent. of the immigrants came from Latin-Slav countries (Austria-Hungary, Russia, Balkan and Mediterranean countries, and Portugal), whereas in the ten years 1870–80 only 8 per cent. had come from these countries. The whole racial character of America is thus changing.[1] Within the United States newspapers are published in half the languages of Europe. To create a nation out of such material is one of the biggest tasks that politicians have ever had to face. Mass production is helping the politicians by turning out the 'average man', but it is hard to believe that the artificial veneer which commercial unity provides has a very deep social value.

In a country which has been dominated by economic progress as has America during the last century, it is not surprising that 'big business' has been a greater political force than in any other. American firms interested in foreign trade have often succeeded in forcing the government's hand. That has indeed often happened elsewhere. Much more significant has been the political power of big business in internal affairs.

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[1] Though the tendency has been checked by the post-War immigration laws the results are of course permanent.

This has been marked ever since the Civil War, and is ultimately based largely on the phrase in the Fourteenth Amendment which has made interference with inter-state commercial concerns almost impossible. For many years it was actually not possible to compel these big concerns to pay income-tax on their profits, because the administrative unit for purposes of income-tax was the individual State. There has been a positive side to their power in the wholesale bribery which they have regularly exercised, and in the control which they have been able at times to secure of political organization and of sections of the press. In the most recent instance where this occurred, during the presidency of Harding, the President and a number of his cabinet were acting in the interests of big financial bosses, and there can be very little room for doubt that unless the slump of the years 1930–3 had disproved conclusively the belief (widely held in the United States) that the system was tolerable because it meant continuous prosperity, the domination of finance would still be continuing. When the number of unemployed rose to 15 millions, optimism and confidence could hardly be maintained; and the task which Roosevelt set himself to perform on his election to the Presidency, was to establish control over big business, and to restore, by imposing on it a planned economy, some measure of the prosperity which had been lost.

The European visitor to America who penetrates beyond the eastern States is invariably impressed by the traces of the rapidity of economic development which he sees everywhere. In the prairie towns like Sinclair Lewis's 'Main Street', there is no architectural tradition. Everything has been put up in a hurry to meet an immediate need, and provided it meets that need it is good enough. The corrugated iron shanty is more characteristic of America than is the skyscraper. And the social conditions responsible for this have produced a remarkable type of citizen, energetic and proud of the material progress of the community to which he belongs, but with his tastes standardized at a low level, and further (unless he is from the big cities) with a provincialism which comes of living in a group isolated by vast distances from any cultural centre. He judges Europe by its bathrooms, which he finds wanting both in quantity and quality, and by its antiquated ideas on central heating, and takes care that his neighbour does not run a better car than he runs himself. This is the process which is known as 'levelling up'. Owing to the size and to the diversity of its population it is less safe to generalize about America than about any other country in the world, but to judge American life simply from the standards of New York, Chicago, or Los Angeles is to neglect what are socially and also politically some of its most important elements, those of the Middle West.

II. CANADA

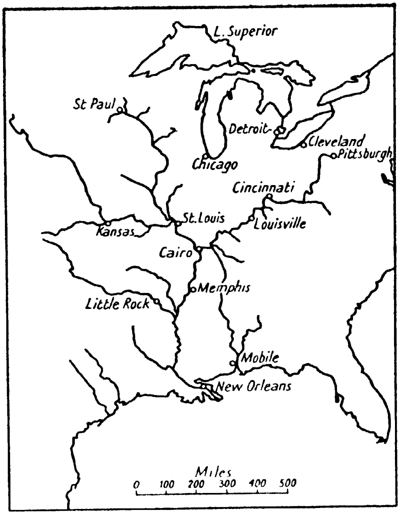
When Canada passed from French into English hands, the only area permanently settled was the banks of the St. Lawrence. Though French fur traders had penetrated into the interior and the Hudson Bay Company had a number of posts on the bay and towards the west, economic development by white men, other than the exploitation of the fur trade, had not yet been contemplated. Even the century following the capture of Quebec was more a time of exploration than of development. By 1850 the west had been explored and mapped, from Hudson Bay to Vancouver, and to the Arctic Ocean, its explorers being for the most part fur traders.

Canada is a country of waterways. The interior is marked, as the map will show, with a network of rivers and lakes. In a country which was otherwise difficult to cross, these waterways formed the one means of rapid communication from place to place, and by them alone could the bulky parcel of furs be carried from the locality where they had been secured back to the base. The native Indians had perfected the art of navigating by canoe. Heavy boats could not be used, as they were not easily carried on the circuits which often had to be made to avoid rapids, or on the 'portages' which led from one river to another. In spite of the facilities which the rivers provided, operations were slow, difficult, and often dangerous.

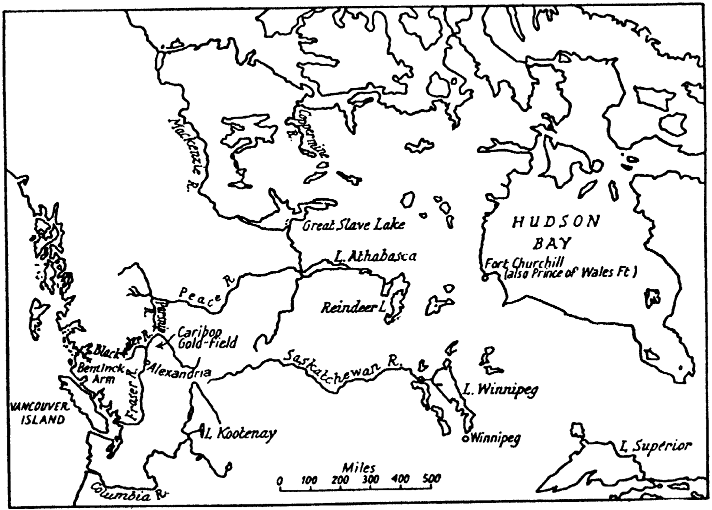
From the seventeenth century the Hudson Bay Company had been engaged on the fur trade, with varying fortunes. When the St. Lawrence country passed into British hands, others began to consider the possibilities of its exploitation, and in 1783 a 'North-West Company' was founded to work the fur trade from Montreal. Seventeen years later a new company, known as the XY Company, was founded, and for four years rivalry between these three companies ran high. In 1804 the XY Company amalgamated with the North-West Company, but this left still two big concerns in the field, and during the next fifteen years the struggle between them was severe, both sides using the liquor traffic freely to secure furs from the Indian trappers. Competition did not end till 1821, when the two companies amalgamated.

By men trading as the agents of one or other of these Companies the work of exploration was done. The west coast had, indeed, been visited actually by Sir Francis Drake, in the *Golden Hind*. Vancouver was visited (1776–8) by Captain Cook, and Russian explorers had worked southwards from Alaska. But of the hinterland nothing whatever was known until it began to be visited by the English and French fur traders. The achievements of these trappers can hardly be appreciated by a bare glance at the map, which conveys nothing of the continental distances which they travelled. In 1773, Pond, starting from a base somewhere between Huron and Michigan, made his way by Lake Superior to what is now Winnipeg, and to the Saskatchewan river, and thence to the Great Slave Lake—something like 1,500 miles as the crow flies and several times that distance as he had to travel it. About the same date Hearne reached the Coppermine River from Prince of Wales's Fort, travelled to the Arctic and made his way back to Prince of Wales's Fort by way of the Great Slave River. Another of the pioneers was David Thompson, whose work was of particular value owing to the accuracy of the maps he produced. During the earlier part of his career he was in the service of the Hudson Bay Company, but later he was employed by the North-West Company. Leaving Fort Churchill on Hudson Bay in 1807, he succeeded in reaching the Rockies by way of Reindeer Lake and Lake Athabasca. He crossed the pass from the upper waters of the Saskatchewan to the upper waters of the Columbia, and explored Columbia and Kootenay. Roughly contemporary with Thompson were Alexander Mackenzie and Simon Fraser. Mackenzie, in the early 1790's, trying to find a route to the west coast, had discovered the river which now bears his name, and which is one of the great rivers of the world. Hoping that it would take him to the Pacific, he followed it down to its mouth in the Arctic Ocean. On a second expedition he made his way to the Pacific by way of the Peace River, the Parsnip River, and the river which afterwards was named the Fraser, to Alexandria—called after himself. He then ascended the Blackwater, and made his way to the Bentinck arm of the Pacific. Over a rock which, it is claimed, has been recently identified, he painted the inscription 'Alexander Mackenzie, from Canada, by land, the twenty-second of July, one thousand seven hundred and ninety-three'. Mackenzie had reached the Fraser river. It was explored in 1808 by Simon Fraser, who followed it down to the sea. This was the most adventurous period in Canadian history. The trader was exposed to extremes of cold and often extremes of hunger. Very few ended as rich men. One or two were lucky enough to discover gold, but it made other men's fortunes rather than their own. Their lives were lived for the sake of the risk and the adventure. They were the pioneers of modern Canada.

The fur trade, if it promoted exploration, did not favour settlement. In the long run many of the fur-trading posts were indeed to develop into the towns of modern Canada. Fort William, once the head-quarters of the North-West Company, is now an important port for grain transhipments. But on the whole the trade was bound to decline as the area of permanent settlement extended, since permanent settlement brought with it the gradual disappearance of the fur-bearing animals. The earliest attempt to open up the heart of Canada for settlement was at Red River, whither came in 1812 a



VIII a. U.S.A. Rivers Navigable by Steamboat: 1860
(cf. Clive Day, *History of Commerce*, 1907, p. 505)



VIII b. NW. CANADA: to show the Routes of the Fur-trader Explorers

handful of pioneers from the British Isles—mainly Highlanders from the Hebrides and peasants from the west of Ireland. Forty-four years later, as the province of Manitoba, this settlement entered the Confederation. Meanwhile, in the far west, desultory settlements were being made as the result of discoveries of gold. In 1858 there took place the gold rush to the Fraser, followed in 1859 by the discovery of the rich Cariboo gold-fields. These discoveries ultimately led to the settlement of British Columbia. As yet, the great prairie provinces were virtually unoccupied. The Grand Trunk Railway had been begun in 1852, but served only a small district in the east. What trade there was, was with the United States, rather than with Europe; a natural line for it to take was north and south, the products of the warm south being exchanged for those of the cold north, and this tendency was strengthened by a trade treaty with the United States. In 1865 this treaty was abrogated, and as a result, there began the agitation for east and west routes across the continent; as yet there was not even a wagon road. When in 1870 Rupert's Land and North-West Territory were transferred to Canada by the Hudson Bay Company, the necessity for a railway, if the new lands were ever going to be developed, and if British Columbia was going to enter the Union, was obvious. Equally obvious were the difficulties. Central Canada was still sparsely inhabited, and a railway could certainly not be made at first to pay. It could not therefore be carried through simply by private enterprise. In the agreement between the railway company and the government reached ultimately in 1891, it was arranged that the Company should receive 25 million dollars in subsidy and should be granted the ownership of 25 million acres of land along the proposed route. The railway thus became landlord of a large area, and thus was provided an additional incentive for the development of the interior. The line was completed in 1895.

The building of the Canadian Pacific was rapidly followed by that of other lines: the Canadian Northern railway to open up Manitoba, from Point Arthur on Lake Superior to the

Pacific in the west and Montreal in the east, and the extension of the old Grand Trunk system west to the North Pacific by way of Winnipeg, and to New Brunswick in the east. This extensive building programme was too optimistic. The railways running in competition for the east–west traffic could not be made to pay, and in 1917 all except the Canadian Pacific were taken over by the government as the Canadian National Railways. In addition to expenditure on railways, large sums have recently been spent in improving the waterways from the Great Lakes to the St. Lawrence, with a view to accommodating the largest possible ships. In this Canada found herself in sharp competition with the United States, but it seems probable that the facilities she will be able to offer for the St. Lawrence route from the Great Lakes, in spite of the fact that the river is frozen in winter, will mean that most of the grain from that region will leave by that way.[1] Another grain port has lately been opened on Hudson Bay, which it is anticipated will deal with large quantities of the northern Canadian grain traffic.

The economic development made possible by the railways has been very extensive. Settlers have come to the prairie provinces from all parts of the world; more particularly from the eastern provinces, the United States of America, and Great Britain; but in addition there have been Ruthenians, Magyars, Germans, Icelanders, Finns, and even a few Persians. The following table shows the increase in the population of Manitoba between 1871 and 1911:

1871	*1801*	*1891*	*1901*	*1911*
25,228	62,260	152,506	255,211	455,614

In the ten years from 1901 to 1911 the population of Saskatchewan increased from 40,094 to 251,012. Figures such as these give some idea of the developments which the railways have brought with them.

It is the same story if instead of examining the figures of population, we examine those of production. In 1870 the value of the field crops of Canada was £22 million; in 1921 it was £193 million.[1] One of the most noteworthy features in the increase of the grain crop is the assistance which science has given in the breeding of new varieties of wheat ripening more quickly, which can therefore be grown farther north than any of the older varieties. The production of fruit, especially apples, has steadily increased. A big dairying industry has also arisen in the last fifty years.

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[1] For the alternative route, see above, p. 304.

Another important Canadian industry is lumbering. This played a very large part, with its subsidiary industry, ship-building, in the growth of nineteenth-century Canada, and in 1868 lumber trade exports, in point of value, formed one-third of the entire exports of Canada. With the disappearance of the old wooden ship, Canadian ship-building has declined, but the trade has been replaced by another industry subsidiary to lumbering, the production of wood-pulp for newspaper. Canada has a marked advantage in the water-power available in Labrador, and she now produces two-thirds of the newsprint used in the United States of America.

Under shelter of tariffs it has been possible to develop other forms of manufacture in Canada, particularly cotton manufacture and the production of iron. Mining of various minerals, including gold, silver, and copper (those metals which have played a very large part in the development of British Columbia, in particular), and coal, has been developed also, on a steadily growing scale. It remains true, however, that Canada's main importance in the world is not as a manufacturer, but as a producer of food and timber.

There is a passage in one of Mr. Shaw's latest plays in which the American ambassador enters to announce to the King of England that the Declaration of Independence is cancelled. 'We have decided to rejoin the British Empire. We shall of course enjoy Dominion Home Rule under the Presidency of Mr. Bossfield . . . Perhaps I should have mentioned that one of our conditions will be that you shall be Emperor.—King may be good enough for this little island; but if we come in we shall require something grander.' King Magnus sees in his mind's eye his country, 'this little gem set in a silver sea'. 'Has it occurred to you, Mr. Vanhattan,' he says, 'that rather than be reduced to a mere appendage of a big American concern, we might raise the old war cry of Sinn Fein and fight for our independence to the last drop of our blood?' In that odd but none the less real political entity, the British Empire, the Dominions are in fact independent States, and in reading this account of the resources of Canada, the idea envisaged by King Magnus may occur to more than one. It was inconceivable that, with the progress of westernization in the great dominions, and with the development of their enormous resources, they should not be independent politically as they are economically. They are among the great nations of the world, and their resources are probably only on the threshold of their potential development. But ideas are sometimes as powerful a force in history as is economic fact, and it is they which have preserved the old allegiance to the Crown in the new Canada.

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[1] There are now some signs of retrogression owing to the action of wind on the vast plains cleared of trees. This tends to reduce them to desert.

III. LATIN AMERICA

Towards the end of the eighteenth century the leaven of new political theories which was causing such spectacular ferment in France began to work throughout the Spanish American empire. The British North American colonies succeeded in asserting their independence and the Spanish colonists had many of the same grievances. They, too, could claim that their progress was continually stifled in the interests of the mother country, and that the right to trade with other powers besides Spain was a vital necessity to them. Soon after the Napoleonic wars the Brazilians successfully claimed independence from Portugal. The Spanish empire was equally discontented. British admirals tended to be waiting conveniently in the offing when separatist movements were expected. There was always sympathy available in nineteenth-century England for any people, not perhaps quite so ready where English interests were threatened, who claimed independence, and South American independence meant new South American markets. Thus by 1830 independence had been won, and the political boundaries in South America were, roughly speaking, those which exist at present.

Independence did not solve all the economic problems of the colonies. The problem in Mexico was that nature was too lavish. It was possible to live without having to do very much about it, and indeed, the trade of Mexico, during the thirty years following the achievement of independence, showed a steady decline. But the precious metals at least were of increasing value, and to work them during the thirties, forties, and fifties, English, French, and American capital entered the country in large amounts. The moneys obtained by the sale of Texas, New Mexico, and California (1846–8) to the U.S.A., supplemented by the sale of Arizona (1853) gave two Mexican presidents a little money, which they rapidly dissipated and ran further into debt to European, and particularly French, investors. By 1859 Mexican indebtedness to Europe amounted to $82,000,000. A crisis at last arose when the Mexican government declared the suspension for two years of interest payments to foreign creditors. The moment was ripe for the French Emperor, Napoleon III, to realize his imperialist ambitions in America. The hands of the United States were tied by the Civil War. A French army marched on Mexico city, which was entered early in 1863. A monarchical form of government was established with Napoleon's nominee, Maximilian of Austria, on the throne. But the success of the North in the Civil War left the way open for the enforcement of the 'Monroe doctrine'. An ultimatum was addressed to Napoleon III which compelled him to withdraw his support of Maximilian, who was court-martialled and executed in 1867.

The incident illustrates the concern of European investors, as early as the sixties of the last century, in Central and South America. It illustrates also the way in which financial interests often became the pretext for military intervention and the determination of the United States that no European power should interfere with the politics of Central or South America. It illustrates, too, the beginnings of a positive policy of intervention by the United States. Similar problems arose in Cuba, nominally a Spanish possession, but virtually independent under its Captains General. About the turn of the century the opportunity presented itself for the United States to interfere, war broke out with Spain, and Cuba passed under the protection of the United States. In other parts of Central America also, notably in Panama, where the Canal zone is under the complete control of the U.S.A. (which bought out English and French rights), and in Guatemala the United States have found it necessary to intervene, though seldom actually to annexe territory.

This expansionist policy of the United States was one of the characteristic features of American history during the twenty years 1898–1918. It had its political and economic repercussions. The three great States of South America, the Argentine, Brazil, and Chile, have shown openly their dislike of it and have striven hard to maintain their cultural connexions with Latin Europe, and in particular with Paris. But the commerce of each is concerned almost exclusively with raw materials, and they must sell to, and buy from, manufacturing nations. Thus, during the War, when European manufactures for export were greatly reduced in quantity, the United States had her chance. Before the War a distinguished Englishman had foreseen as one of the possible causes of a war England's jealousy of American penetration into South American markets. By 1918 this penetration was an accomplished fact.

Many of the States of South America have a much longer history than the United States, but their development has been deeply affected by geographical conditions, and in particular the great barrier of the Andes mountains and the vast areas of tropical forest—much of which still remains unopened. This has meant that each community tended to grow along its own lines, and that not inter-state commerce, but only local trade was the rule, the basis of the economic system being everywhere the land. Each different State had its own rules of land tenure, though they had a family likeness, in that almost all implied a small landed class and a large number of what were virtually slaves. In many places (as in Mexico) the Church in the course of time secured very large property in land, and thus also political power. The break-down of this old system is by no means yet complete. Until it is reformed, it is inevitably a bar to economic development.

Economically the most successful South American nation has been Argentina, where steam ocean transport, canning, and refrigeration have during the last fifty years led to great changes. She is, indeed, now one of the most important wheat- and meat-producing countries in the world. Moreover, the Argentine has built (mainly with British capital) a considerable length of railway. In the period 1870–90 alone the mileage increased from 540 to something over 6,000. That has helped her to solve a difficulty which in other countries is often acute and which is one of the principal causes of revolution in South America—the difference of interest between town and country. Until a State becomes united by efficient communications, taxes collected from the country tend to be spent almost entirely in the interest of the town populations, and the result is discontent and political agitation.

The commerce of these Spanish-American States in general exhibited, during the nineteenth century, the characteristic features of world trade of the period. During the fifty years after the securing of independence, the position of the British exporter to South America was overwhelmingly strong, and he had its markets for textiles and machinery almost entirely to himself. Reference to Plate 5 will show the amount of British investments in South America in 1914, and these represent largely machinery and railways supplied in the nineteenth century, interest for which was still being, and in many instances is still being, paid. Of the total 23,000 miles of railway in the Argentine in 1927, British capital owned 15,000 miles, and the first great railway, that from Rosario to

Cordoba, was constructed in 1864 by American engineers, with British capital. Similarly the first freezing-plant in the Argentine was established by British capital in 1883. As early as the thirties 'most of the foreign trade of Chile was with Great Britain'. Fifty years later this virtual monopoly was being seriously undermined. By 1896 German and Italian trade was gaining ground in the Argentine, and in Uruguay during the period 1886–96 there was a great increase of trade with Germany, Brazil, and Argentine, while Great Britain lost ground. The list of competitors is significant. During the World War the markets invaded by European commerce fell, as we have seen, largely into the hands of the U.S.A. The War also gave the local manufacturer his chance. In the Argentine not only is food produced and manufactured for local consumption, but there is, to take a single instance only, a flourishing boot and shoe industry which supplies the home market and is seeking for outlets abroad for surplus production. The new countries have now passed the period of their minority.

XIII

AFRICA, AUSTRALIA AND NEW ZEALAND

I. AFRICA IN THE NINETEENTH AND TWENTIETH CENTURIES

1. *South Africa*

MANY centuries before the occupation of Africa by Europeans began, Central Africa was one of the hunting-grounds of the slave trader. Negro slaves were bought and sold in the slave markets of the ancient world. In the seventeenth and eighteenth centuries negro slaves were transported to America literally by the million, and the Arab traffic which flourished in Livingstone's day had begun in the remote past. The European slave trade did not involve permanent settlement, and the first such settlement, Capetown, was founded by a

Dutchman, Van Riebeck, in 1652, under the auspices of the Dutch East India Company as a port of call on the way to India. The hand of the Company lay heavy on the small settlement. Its commandant was expected to take his orders from the authorities at Amsterdam or the head-quarters of the East India Company in Batavia; and the settlement thus made less progress than it might otherwise have done. Some few settlers made their way northward, and by 1760 the Orange River was discovered. The population at this time was about 10,000. As a result of Holland becoming involved in the Napoleonic wars the settlement passed to England in 1806.

The British government was unpopular with the Dutch settlers, the Boers, and when slavery was abolished throughout the British Empire in 1833, it became far more unpopular. Boer dissatisfaction led three years later (1836) to the 'Great Trek', the emigration of ten thousand Dutch, with their families, to the lands which afterwards became the Orange Free State and the Transvaal. These Dutch farmers had little use for westernization. They refused to hear of the abolition of slavery. They found it 'in the Bible'; and what had been good enough for Moses was certainly good enough for them. As white settlement extended, actual conflicts with the natives were not infrequent. The most serious of these was the Zulu war (1879–80), fought against the powerful tribe from whom Boers had originally conquered the Transvaal. Since that date, relations between natives and white men have been peaceful. The native population has supplied labour, and in certain areas is left to itself to manage its own land. As education spreads among the negroes, however, they naturally have begun to claim rights not hitherto allowed them. The total population of British South Africa is approximately 8 millions, and of these only some 1½ millions are white men. The maintenance of white supremacy in such circumstances must be an extremely delicate problem.

In the seventies diamonds were discovered at Kimberley, very close to the Transvaal border, and a new interest in the interior of South Africa began to manifest itself. In the sixties had already begun some immigration into the Transvaal from England and Scotland; and then in 1886 gold was discovered near Johannesburg. The richness of the finds showed that the Transvaal would become one of the chief sources of the world's supply of gold.[1] The Boers thus found their country invaded by thousands of energetic and enterprising British prospectors. Though the Boers disliked their modern ideas, their profits could be—and were—heavily taxed, and the discovery thus strengthened considerably the the financial position of the republic. But the immigrant British population remained excluded from the citizenship of the Transvaal.

Their position was an impossible one, and it was made no less difficult by the fact that the Transvaal had been annexed to the British government in 1877 and restored to independence in 1881—only a few years before the discovery of gold had been made. Opinion in the British Colony sympathized strongly with the settlers. A policy of reannexation had considerable support, and war ultimately followed. This war was almost, though perhaps not quite, justified by the peace which concluded it. Though the Transvaal was annexed, the Dutch were allowed to retain their own language and were assisted financially by the British government in the resettlement of their farms. Self-government followed in 1906, only four years after the end of the war. Many of the Dutch leaders, for example Botha and Smuts, were converted by the terms of peace to a whole-hearted support of British rule. Others remained its enemies, and there took place when the Great War broke out in 1914 an abortive rising in favour of a break with Great Britain. The movement received very little support, but it is fair nevertheless to say that South Africa has taken (if Ireland be excepted) a leading part in the movement to emphasize the freedom of the Dominions from English control.

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[1] In 1928 the value of gold exported from the Dominion of South Africa was about £35,000,000 a year. Of the other sources of supply Rhodesia produced approximately £3,000,000, Alaska produced £3,000,000 to £4,000,000, California £8,000,000 to £10,000,000, Australia £2,000,000, and Mexico £3,000,000 to £4,000,000 worth of gold yearly. In 1934, owing to the changing value of the £ sterling and the increased demand for gold, the value of gold exported from South Africa had doubled (£72,000,000).

The value of South African gold is high, but South Africa is not primarily an industrial but a farming country. In the early days of the Dutch settlement grain was exported. The most important form of farming now, however, is the rearing of sheep and cattle. Sheep are bred mainly for their wool. The Merino variety (which has a less valuable carcass but a more valuable yield of wool) predominates, as in the interior regions of Australia; in South Africa there are approximately 40 million sheep.[1] The country has other points of similarity with Australia and South America. Like them it now lies off the great trade routes of the world (though less remote than they), and its importance must depend on its own resources rather than those of other countries. Much must ultimately depend on how far it is preoccupied with its own internal problem of the relation between white and black.

2. *Tropical Africa*

Any map which shows the rainfall or vegetation of Africa will show that a great stretch of coast to the north-west of Capetown and the region through which the Orange River flows is mainly desert country, with practically no rainfall from May to October, and very little for the rest of the year. North of that, in Portuguese West Africa and in the Congo basin, conditions are as different as they could be. The Congo basin has heavy rainfall throughout the year, more particularly in the months November to April. Instead of the desert and steppe country of the south-west, there is here tropical forest. As a result of these physical conditions the west coast of Africa is not suitable for permanent white settlement. The east coast presents different features again. There is, it is true, north of Lorenzo Marquez, a coast belt of tropical forest which is unhealthy for Europeans, of importance because many of its natural products fetch good prices, being very similar to those of the Congo basin. Within this coast belt, however, on the higher ground of the African plateau, forest gives way to open country, which has a more even rainfall than that of the west coast, and is probably better adapted for white settlement than any other tropical country of the world.

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[1] As compared with approximately 100 millions in each of the two greatest wool-producing countries of the world (the Argentine and Australia), 27 millions in New Zealand, 24½ millions in Great Britain, and 47 millions in the U.S.A.

In a previous chapter the course of European exploration down the west coast of Africa has been traced. The slave trade led to the establishing of fortresses on the coast, and there were a number of small stations, generally in Portuguese hands, all down the west coast, into which the East Indiamen put for water and supplies, and to which the native dealers brought the slaves ultimately sold in the American market. These stations attempted no political control over the surrounding region. Africa was a dark continent, impenetrable to the white man.

But by 1840 interest in Central Africa was growing, more particularly because the increasing amount of machinery in use in Europe required large quantities of vegetable oil. This oil was also being used in steadily growing quantities for soap. It was in the first instance the palm which, after the abolition of the slave trade, revived commercial interest in Central Africa, though the ivory trade (ivory had reached the known world from very ancient times from Africa) still retained its importance throughout the nineteenth century, when ivory was as yet unreplaced by synthetic substitutes.

Commerce, however, can claim little share in the scientific exploration of Africa. The greatest name in the history of the exploration of Central Africa is that of the missionary, Livingstone. Livingstone was sent out to Africa by the London Missionary Society. In 1851, working northwards through what is now Rhodesia, he reached the river Zambezi. On this journey Livingstone realized the importance of being able to make accurate scientific observations, and when the journey was safely over he returned to England and studied astronomy. On his next journey he followed the Zambezi upstream almost to its source, discovered the southern tributaries of the Congo, and reached the western ocean at Loanda. He then crossed once more to the Central Zambezi (where is now situated the town which bears his name) and followed the river down to its delta. He returned a few years later and discovered Lake Nyasa; and then, in 1866, starting from the east coast much farther north (Zanzibar), he reached Nyasa and Bangweolo, and then pushed on to the Congo. He thought that what he had reached was the head-waters of the Nile. He died in Central Africa in 1873. The bare summary of his journeys can give no idea of the magnificence of his achievement, either from the scientific or from the human point of view. They took him through some of the most difficult tropical forests in the world, where the health of a white man is always precarious. The distance direct from Loanda to the Zambezi mouth is approximately 1,700 miles.

Livingstone's work was carried on by a number of explorers, both British and German. The best-known of them was Sir H. M. Stanley, who during one of Livingstone's journeys had been sent out by a New York newspaper to look for him. Stanley's great feat was to explore the course of the Congo. In East Africa it was a German, von der Decken, who discovered and surveyed Mt. Kilimanjaro. Probably the greatest contribution which the Germans made to the knowledge of Africa, however, was not in geographical exploration but in the study of native languages and zoology.

The critical period politically was the last quarter of the nineteenth century. For different reasons the Franco-Prussian war in 1870 made both powers anxious to increase their overseas possessions. The French sought compensation for defeat in the prestige which a great North African empire would bring, and the potential increase in their economic resources and man-power. Their object was to create a block of French territory reaching from the Mediterranean to the Gulf of Guinea, and from the Atlantic to the Indian Ocean. The former they achieved, and in the process isolated the Guinea coast possessions of other European powers; though in 1884 Britain annexed a large area which included the lower reaches of the Niger, the great waterway of the more southerly parts of this empire. On the Upper Nile France was thwarted by the action of Britain.

French North Africa is as yet only in the very early stages of development. The growth of motor transport crossing the desert from the Mediterranean to Timbuktu by the old caravan route may make unnecessary the projected railway from north to south through the Sahara. The vast areas of 'savannah' or grassland south of the Sahara which would be opened by regular communications might play a much more considerable part in the future in the world economic system than they do at present, and to the south of them is a country with immense potential resources of tropical produce. Here as in the other European possessions in tropical Africa the question is rather, perhaps, whether in the face of a growing surplus of raw materials, it is wise to undertake a further gigantic increase in their supply.

The uniting of Germany in 1871 gave a great impetus to commercial activity which everywhere grew so sensationally during this period. The German authorities feared that all the sources for raw materials, which were becoming increasingly important, would be annexed by other powers. In 1876 the King of the Belgians had formed what he called an International Association for the exploration of Africa, and three years later Stanley had gone out as the agent of this association and had explored the Congo river. This immense waterway offered magnificent opportunities for opening up a region which produced large quantities of ivory and palm oil. It passed nominally under the control of the Association, but in fact became part of the private estate of the King of the Belgians.[1] The area available for occupation was therefore decreasing rapidly, and so in the seventies Germany annexed the Cameroons on the Guinea coast, and a large and unprofitable territory on the south-west coast, which since the Peace Treaty of 1919 has passed to the Union of South Africa. On the east coast the German choice was shrewder. Here the upland region near the great lakes, an area particularly adapted for European settlement, became German East Africa. It, too, passed from German control by mandate in 1919, this time to Great Britain.

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[1] This arrangement continued till 1905, when the Congo Free State passed under the control of the Belgian government. There had been conscription of black labour in the Congo which in fact amounted to

Great Britain, after a period early in the nineteenth century during which her governments had been apathetic to political annexations in Africa, had adopted a more imperialistic attitude as French and German imperialism developed. The explanation was in part that she realized she was losing her former commercial supremacy. The British public saw the manufactures of Germany growing, and popular theory of the time argued a close connexion between colonial possessions and commercial prosperity. Rhodes formed the project of an empire in Africa, which should stretch from the Cape to Cairo. In the way of the realization of this project lay German East Africa. The Great War offered an opportunity of removing the obstacle.

The capture of the German colonies as the result of the War has created a grave and immediate problem. In the nationalist spirit which now prevails throughout most of Europe it is certain and natural that Germany should claim at some not very distant future the return of these colonies. We have seen already that there is abundance and superabundance of raw material available. But what a powerful nationalist government demands is political and economic control of the source from which raw material is derived. Otherwise she may be driven (as Germany was driven when she rearmed in 1934–5) to restrict the import of other necessities in order to keep her trade balances for the buying of raw materials to make military equipment.

slavery. Conditions were bad, though not so bad, in most European tropical dependencies at the time.

Germany also lost in German East Africa a colony of settlement, and that is also regarded by her as a legitimate grievance. But though the problem of expanding population both in Germany and in Italy may be temporarily acute, it is probable that in the not very distant future a decline in the population of western and central Europe will begin and with it a relaxation of the pressure for emigration. The white settlements in East Africa already have their serious colour-problem to face —the main problem of the Dominion of South Africa also. Influence is naturally exercised by the white settlers to obtain good land, and the reserves set aside for native occupation have been steadily reduced. In South Africa this is not only a domestic but also an imperial problem, since Bechuanaland, which is still under the control of the Colonial Office, is a native reserve. Farther north, in the country which was formerly German East Africa, the same problem has caused trouble, and the policy of the Colonial Office has been to resist the demand of the white settlers for complete self-government, on the grounds that this would mean having the black population, which far outnumbers the whites, under the control of the white settlers. The figures suggest that in the end the ideal of a white East Africa is doomed. This is another of the regions which European material civilization has penetrated without the man-power to make its position stable.

In the coastal districts and the regions farther north which are unsuited to European settlement the problem does not arise, but there remains the almost equally difficult question of imposing a western administration on the pre-existing tribal organization. The motor-bicycle and gramophone have an even more deplorable effect on the native mind than they have on the European, and under a system where an attempt is made to use the old tribal organization of society for administration, instances are bound to occur of chiefs who spend the revenues collected from their tribes on cars and expensive suits. It is on the whole surprising that the system works as well as it seems to do. The explanation lies in the fact that only the chief has money to waste, and his subjects go on living a similar life to that lived by their ancestors. Western administration has brought them peace, which according to the English view at least is a valuable commodity; and it has brought them comparative freedom from the slave raiders of whose activities Livingstone saw such grim proofs.

II. AUSTRALIA AND NEW ZEALAND

Legend and reality are curiously interwoven in the history of the discovery of Australia. Before the time of any recorded discoveries not only does a 'Terra Australis' appear on the maps, but certain facts are known about it which seem to prove discoveries made by unknown explorers. The Portuguese were the nation primarily interested in the Far East in the sixteenth century, and it is probable, therefore, that from some Portuguese source was received the information about the 'Terra Australis' which was given by the Flemish geographer, Cornelius Wytfliet, in 1598:

> 'The Australis terra is the most southern of all lands, and is separated from New Guinea by a narrow strait. Its shores are, hitherto, little known, since after one voyage and another that route has been deserted, and the country is seldom visited unless sailors have been driven there by storms. The Australis terra begins at two or three degrees from the equator, and is maintained by some to be of so great extent that if it were thoroughly explored it would be regarded as a fifth part of the world.'[1]

The most interesting and significant detail in this account is the mention of the strait between Australia and New Guinea, the first recorded voyage through which was that made in 1606, by a Spaniard, Torres, after whom the strait is named. The existence of this knowledge before Torres's voyage is an interesting example of the obscurity which surrounds the original discoveries made in this region. Some geographers held that there must be a great southern continent to balance the land-masses of the northern hemisphere.

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[1] Quoted in Dunrabin, *The Making of Australasia*. In the next few pages several details have been taken from this book.

In many of the sixteenth-century maps of the world Tierra del Fuego is marked as part of this southern continent.

In the seventeenth century the Dutch made themselves masters of the trade in spices of the eastern Pacific, and it became customary with Dutch commanders not to touch the coast of India on the voyage out to Batavia, but to set a course due eastwards from the Cape of Good Hope, which brought them to the western coast of Australia, whence they sailed northwards with the south-east monsoon. Dick Hartog, in the ship *Eendragt*, was apparently the first to sight the coast and to land, in 1616. Further discoveries were made by Tasman in 1642, when he was sent by the Dutch East India Company's governor, Van Diemen, with orders to sail to a high southerly latitude and then set a course eastwards. Tasman was driven farther north than he had intended, and discovered the island which bears his name. Contrary winds then drove him eastwards, preventing him from following the coast and so anticipating Cook's discoveries, but carrying him to New Zealand; and thence he made his way back to Batavia. His voyage of ten months, the first circumnavigation of Australia, finally exploded the theory that Australia was part of a huge southern continent stretching out over the Pacific to Tierra del Fuego. No practical results came of Tasman's discoveries and they did not appear to the company to warrant further outlay. As the Directors wrote in the case of another of their commanders who visited Western Australia, towards the end of the seventeenth century, and brought back from the Swan river the first black swan to Batavia: 'The gold and silver mines that will best serve the Company's turn have already been found, which we deem to be our trade over the whole of India (i.e. the Spice Islands).'

Commerce had failed conspicuously to make much of the 'Terra Australis', and it remained for science to clear up the mystery. The voyage of Cook, on which he explored the eastern coast of the continent and which ultimately led to the formation of the Botany Bay settlement, was a purely scientific expedition. It was equipped originally by the Royal

Society for observing the transit of Venus on 1 June 1769 from Tahiti, which was regarded as the most favourable spot for studying the phenomenon. Tahiti had just been discovered by Wallis, and the whole incident gives us a pleasant glimpse of the age of reason taking itself seriously. Scientifically the expedition was brilliantly successful, and on the homeward journey Cook arranged to visit the eastern coast of Australia and charted a great extent of the coastline. The expedition had on board an enthusiastic botanist, Sir Joseph Banks, whose name is noteworthy in the history of the dominion. It was he who was the moving spirit in promoting the colony sent there in 1787.

There were indeed in Australia no very obvious opportunities for commerce; and for the settler who, like the first English settlers in America, simply wanted somewhere else to go, the immense distance was the drawback. Australia was on the way to nowhere. It was literally the other end of the world. This no doubt weighed with the authorities when they decided to found a penal settlement at Botany Bay, to replace the settlement lost in the American War of Independence. They may also have been concerned to anticipate further action on the part of the French, who had in 1772 taken formal possession of Western Australia. The English settlement was established early enough to prevent this claim materializing.

The first profitable industries were whaling and sealing. In Captain John Hunter's account of the 'new discoveries in the South Seas' published early in the nineties of the eighteenth century, the possibilities of whaling are mentioned and a letter is quoted, written by the master of the ship *Britannia* to its owners. The *Britannia* had come out to Port Jackson with a shipload of convicts, 'live lumber' being the phrase which is used of them.[1] On the passage out she saw

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[1] The arrangement at this time generally was that firms contracted to transport the convicts; and the mortality on these voyages was very high. In 1791 it is stated that 'the whole number of convicts embarked on board the ten transports, including thirty in the *Gorgon*, were one thousand

'sperm whales in great plenty', so that the master saw 'a very great prospect in making our fishing upon this coast and establishing a fishing here'. He goes on to report the results of a day's whaling in which 'in less than two hours we had seven whales killed', and writes that he is eager for his firm to establish a fishing there before their action is anticipated by some one else. Whaling stations were created almost immediately, and for fifty years the industry was very prosperous, whalebone and whale oil being among the most important exports during the early history of the colony. In 1804 the Governor referred to the seal industry, the other profitable occupation early developed, as 'the only staple yet discovered here'; the skins were mainly exported to China.

In the early years of its existence the colony seems to have been a barbarous place. Power passed into the hands of a military clique, the officers of the regiments stationed there and their friends, who exercised it by obtaining a monopoly of the importation of all goods into the colony, and they are said often to have sold goods at five to six times cost price. Spirits were one of the main imports. The most notorious member of the clique, Macarthur, conferred indeed lasting benefits on the country as the founder of its pastoral industry. It was he who was first responsible in Australia for the scientific breeding of sheep for the fleece. The rapid growth which had taken place in the English textile industry made the absorption of increasing quantities of wool feasible. By 1847 the number of sheep in New South Wales was over 10 million, and that same year 22 million lb. of wool were exported, worth £1,270,000. It is as well to notice here in anticipation the great difference that refrigeration has made to the pastoral industry in Australia and in New Zealand. There were occasional periods of slump during the first half of the century when wool was unsaleable and farmers had to cover their costs as best they might by boiling down carcasses for tallow.

six hundred and ninety-five males, sixty-eight females, and eleven children; of whom one hundred and ninety-four males, four females, and one child died on the passage.'

Now, however, the industry rests on a double basis, wool and meat, and is correspondingly more secure.

The social effects of a predominantly pastoral industry will be remembered from the example of the enclosures in England. In the first twenty years of the settlement, land was recklessly distributed by many of the governors, and a number of very large estates were formed during that time. These conditions were much criticized in England. Gibbon Wakefield and his followers maintained that the natural structure of society had been destroyed, and that in future a high price ought to be charged for the land. They hoped that thereby an upper class would be created, and that the residue would form a desirable supply of labour, whereas in the existing situation it was often impossible and always difficult to secure shepherds in adequate numbers. Wakefield's plan was to a limited extent adopted in South Australia. Every quarter an auction was held at which the government sold land at any price over £1 an acre that it would fetch; and land was not generally sold except in lots of 640 acres and upwards. The system discouraged the small farmer, and it encouraged speculation in land. The first buyers, especially those of land round Adelaide itself, held their land for its value to appreciate instead of cultivating it, and the new Governor who went out to South Australia in 1838 wrote that he found 'capital flowing out to Sydney and Van Diemen's Land for the necessaries of life; scarcely any settlers in the country, no tillage, very little sheep or cattle pasturing; the two landing-places of the most indifferent description; the population shut up in Adelaide, existing principally upon the unhealthy and uncertain profits of landjobbing'. A very large proportion of the population in Australia is still located in the towns, 46 per cent. of the population of the dominion being concentrated in the six capital cities. At the same time, there were already instances in some districts of men going out equipped with a little capital who in one season recovered all their capital expenditure.

The settlement of Western Australia began in the thirties.

Here land was sold at only 1*s.* 6*d.* an acre to any settler who was prepared to spend an additional 1*s.* 6*d.* per acre on improvements. This had the same effect as cheap land had had in the first settlement. Settlers took up far greater areas than they could manage, and the regions first occupied were found to be unsuitable for pasture and stock-raising, with the result that most of the original settlers, some of whom, like Thomas Peel, cousin of Sir Robert Peel, had invested on a very large scale, were ruined. There was no convict settlement to secure continuity as there had been at Sydney, though Western Australia also was assisted to some extent by the development of a whaling trade, and the discovery of a market, in Singapore and China, for sandal-wood. Owing to the dearth of labour, there were proposals made to introduce Chinese labour from Singapore, but the proposal was discouraged by the government and did not materialize. It is the first we hear of the problem of a 'white Australia'. In spite of these various difficulties, the rate of emigration to Australia averaged during the years 1825–47 slightly over 5,000 a year.

By the latter date a new field had been opened, New Zealand. The settlement of New Zealand was not begun till the late thirties, though by that time there had already been a British mission station in New Zealand for twenty-five years, and the first printing press had been set up there for Maori literature in 1833. By 1840 there were already 2,000 white men in New Zealand, and French interest in the islands was causing some concern to the British government. They had been visited by a French ship as early as the time of Captain Cook, and Frenchmen had already bought large quantities of land from the natives, and had formed a company whose object was to bring settlers. In 1840, therefore, the islands were annexed, the Maoris being guaranteed full rights in respect of the land they owned. This provision was certainly a wise one, but it very soon led to trouble, since the British New Zealand Company, which had recently been formed, claimed to have bought 20 million acres from the native chiefs, of which they had already sold 100,000 acres at £1 an acre. They had paid for the land the equivalent in goods of something like £9,000—among the articles bartered being 200 muskets, a large number of red blankets, a gross of Jews' harps, and two dozen combs. The company's claims for land in New Zealand were examined and cut down to 283,000 acres, but this by no means settled this problem of the purchase of land by barter from the natives. It finally took a number of wars and a considerable amount of injustice to the Maoris to settle it. The government bought out the New Zealand Company in the early fifties, and though the number of Maoris has declined by something like 50 per cent. since European occupation began, it is probable that on the whole New Zealand has been more successful than most other colonies in its settlement of the 'native' problem.

The next phase in the history of Australia began with the discovery of gold about 1850. The existence of gold in Australia had been known for a long time, but it was the return of 'forty-niners' who had taken part in the Californian gold rush in 1849 that first stimulated serious prospecting, with results that were almost instantaneous. It was anticipated at the time that Australia would remain one of the foremost gold-producing regions of the world. 'It would be idle to attempt to speculate', wrote an Englishman in 1852, 'on the probable supply of gold that may be derived from this new source. But it is abundantly certain that it will be extremely great. And from the vast extent on which it is spread, there is no probability of its being speedily exhausted.' Spectacular amounts were produced during the early years of the discovery, but though gold is still an Australian export, the amount produced has steadily decreased and is now not worth much more than £2,000,000 a year. But the discovery brought Australia within the orbit of world commerce. It established contact between Australia and America, and Australia and England, in a way which no other event could have done. Emigration increased by leaps and bounds. In the four years from 1852 the population of Victoria multiplied by four.[1]

[1] In 1856 the population was 336,957.

The Governor of the province described the extraordinary conditions created by the rush.

'Within the last four weeks the towns of Melbourne and Geelong and their large suburbs have been, in appearance, almost emptied of many classes of male inhabitants. . . . Cottages are deserted, houses to let, businesses at a standstill, even schools are closed. Fortunate the family, whatever its position, which retains its servants at any sacrifice, and can further secure the wanted supplies for their household from the few tradesmen that remain, and retain the means of supplying their customers, at any augmentation of the price.'

The increase in population was a permanent benefit. The voyage from England was losing its terrors, for though steam had not yet been adopted for ocean-going shipping, the fast sailers were doing the voyage to Australia in not much more than three months. For the whole of the fifties the output of gold remained high, and discoveries attracted settlers to districts which had hitherto been almost untouched—Queensland, and Western Australia (1852), and the south island of New Zealand (1861). The immigration figures are worth detailed study and comparison with those of Canada for the corresponding period:

	Australia		*Canada*	
Period	*Immigration of decade*	*Immigration per annum*	*Immigration of decade*	*Immigration per annum*
1841–50	90,000	9,000	487,000	48,700
1851–61	710,000	71,000	178,000	17,800
1861–71	320,000	32,000	383,000	38,300
1871–81	340,000	34,000	211,000	21,100
1881–88	350,000	44,000	205,000[1]	34,200

These figures show the enormous difference which the gold discoveries made to immigration into Australia. In the ten years before the discoveries, emigration to Canada was five times as popular as emigration to Australia. In the ten years following the stream of emigration was rapidly diverted. The numbers going to Canada show a drop of about 60 per cent., while those going to Australia show an increase of approximately 800 per cent. Moreover, even after the immediate effects of the gold rush had spent themselves, there is a steady flow of immigrants at a far greater rate than before the rush began, and until the late eighties Australia was receiving immigrants at a greater rate than Canada. Land in Australia was easier to develop from the coast. The 5,000-odd miles of railway open in Australia in 1881 were more effective than the 7,000 of Canada. The great days of Canada did not begin till the railways had opened the prairies. There is even yet no line from north to south in Australia, and the line from east to west was not open till 1917, but for the development of the continent this was, relatively speaking, immaterial so long as the hinterland of the east and south-east coast was accessible from the sea.

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[1] This figure is for the period 1881–87.

The main interest of recent Australian history has been the part played by the State in regulating economic development and commerce. Australia has been described as the working man's paradise. His real wages are higher in Australia than in any other part of the world with the exception of the U.S.A. He enjoys much more extensive rights to pensions and social services of many kinds than his English cousin. But these privileges have been bought at a price. If the Australian industrial worker (and as we have seen a surprisingly large proportion of the population is urban in character) was to have high wages, industry must be protected from foreign competition, and Australia has had therefore to establish tariff barriers higher than those of any other country. Under the shelter of these barriers, prices have been high, and high wages could thus be paid, but this has meant that Australian manufactures have found it virtually impossible to compete in the world market. Industry has supplied Australia and Australia alone. Nor have tariffs been confined entirely to manufactures. Farmers who found that the prices of their lands were steadily rising clamoured for protection for their own products, and as a result the Australian has been forced to pay higher prices for Australian goods than the Englishman pays for them.[1] The effects of such a system are bound to be felt sooner or later by the producers of wool and wheat —the first Australia's staple in the world market, the second only less important—as their costs of production increase. Wool and wheat must be mainly exported, whereas Australia can absorb her own output of manufactures. Thus Australian economic policy has tended to emphasize the separation of the Dominion from the home country, which a generation ago was the main source of its manufactures.

State interference has taken many other important forms. There has been an increasing demand for the State to provide or extend services such as water or railway transport, even if there was little prospect of a fair return for costs. The management of these services, though enjoying a certain degree of independence, has not been expected to run them on economic lines. They have thus often been recklessly extended, too often as a result of pressure exerted by local interests on the politician, with no regard for the interests of the community as a whole. Thus, while it would not be wholly fair to say that what appears as socialism has in reality been the exploitation of public services by vested interests, there is a measure of truth in the criticism, and there must always be this danger when State ownership is accompanied by the ordinary democratic forms, and is not, as in Russia, centrally planned.

For all these developments, save in so far as they have been effected by loans which may ultimately have to be repudiated, it is in the last resort the growers of wheat and wool who have paid. The question is only how long they will be able to go on paying, and it is a very vital one. Nevertheless, the solid achievements of the system cannot be denied. The Australian visitor to Europe is appalled by the poverty which he sees in most European cities. Australia has no slums, though the method by which they are avoided may not perhaps prove practicable much longer.

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[1] 'In 1925–6 the Australian paid £27 a ton for sugar, which was sold at £11 6*s*. in the world's markets'. Hancock, *Australia* (Modern World Series), p. 97.

Since the eighties the external trade of Australia has, of course, increased greatly, but the increase has been nothing like the sensational increase of the trade of Canada. New Zealand, like Canada, developed late. In 1888 the imports and exports of New Zealand were less per inhabitant than those of any of the Australian colonies, except Tasmania, being £26 per head as against £44·7 per head for South Australia, £41·7 per head for New South Wales, and £32·5 per head for Queensland. By 1928 the values of New Zealand's trade had gone up to £64 per head, as contrasted with £50 per head for the trade of Australia. This remarkable development in the prosperity of New Zealand is due primarily to two industries, the frozen meat industry and dairying. The export of butter and cheese from New Zealand in 1928 was worth £16 million, as against an export of wool worth £12 million, and socially the industry is a very valuable one, inasmuch as it results in intensive settlement. Intensive settlement of the Australian country-side is an ideal which the Dominion government has sought to encourage, but the nature of the trade in which she has been engaged has made it far more difficult to realize this ideal for Australia than for New Zealand. It is, indeed, thought by many authorities that the population of Australia is too scanty for the ideal of a 'white Australia' to be maintained. The expansion of western civilization has meant that Europe has grasped huge areas, many of which she has not been able adequately to settle. A single figure may bring out the contrast between the density of population in some of the regions bordering on the Pacific, and the sparseness of population in others. The entire white population of all the dominions of the British Empire throughout the world is approximately only two-thirds of the population of Java.

BOOK V

FINANCIAL PENETRATION AND STRUGGLE FOR MARKETS IN ASIA

XIV

THE NEAR EAST

A HUNDRED years ago a large part of the Near East, including the Balkans, Syria, Egypt, and most of North Africa, was nominally subject to the Sultan of Turkey. In this Mohammedan world slavery was still to a large extent recognized as a social necessity; indeed, until recent times Arab slave dealers were active in Central Africa. The Muslim world thus had a way of life of its own, static and oriental in character, antipathetic in many ways to western minds, but, nevertheless, an organized society with ancient traditions. The decaying despotisms by which it was ruled offered good opportunities for the financier. Monarchs were generally only too ready to contract loans to meet their own personal extravagances, and they could be charged high rates of interest; for there was reasonable hope that with the aid of European advisers and equipment they would be able to raise the necessary revenues to pay. Thus the first phase in the history of Turkey, Egypt, and Morocco in the nineteenth century is one of unregulated financial exploitation. When this gave way to empire, Morocco passing under French, and Egypt under British control, the mischief had been done, and the administration was saddled at the outset with the repayment of debts which had been contracted to satisfy the monarch's pleasures and those of his officials. The Egyptian debt in 1897 amounted to £104,600,000. £19,400,000 of this had been spent on the construction of canals, £16,200,000 on railways, £13,500,000 on mills, harbours, &c. Of the balance of the debt no less than £47,000,000 had been spent on 'Ballet Dancers, Palaces &c.', while the remainder was discount on the loans that had been raised.

Since the administration had to find interest at a high rate on the whole of these loans, it is scarcely surprising that it found itself in difficulties more than once.

The position was complicated by the generally accepted opinion that the collapse of the Turkish Empire was only a matter of time. The powers, and in particular England, France, Germany, Austria, and Russia, were each of them eager to profit by such a collapse, or at least to prevent others profiting by it. It sometimes suited them, therefore, that Near Eastern governments should become indebted to their subjects, for this provided a reason for interference. And in some instances the powers (as they did in Persia) worked to prevent reorganization and reconstruction, believing that reconstruction would delay or perhaps finally thwart their imperialist ambitions.

The oriental ruler was thus faced with a dilemma. He might attempt to exclude European activities, as did Abdul Hamid II of Turkey, who reigned till 1908; or he might welcome European technicians and try to bring his country 'up to date', as Mehemet Ali did in Egypt early in the nineteenth century. In western Europe the Industrial Revolution was in its natural surroundings. In the Near East it forced itself on to a society the spirit of which was altogether alien to it. 'Egypt', wrote an Englishman in 1876, 'suffers from the defects of the system out of which she is passing, as well as from those of the system which she is attempting to enter. She suffers from the ignorance, dishonesty, waste and extravagance of the East, such as have brought her suzerain to the verge of ruin, and at the same time from the vast expense, caused by hasty and inconsiderate endeavours to adopt the civilization of the west.'

Through most of the nineteenth century France had had particular interests in Turkey, for she sought compensation in the Mediterranean for her losses to England in America and India. Thus French was the language of the upper classes in Turkey, and much of the trade of Turkey was in French hands. A system of capitulations, similar to those which grew up at the same time in the Far East, was prevalent in Turkey and Egypt. This gave foreigners extensive advantages, for not only were they subject to their own, and not Turkish, law, but in most cases they were free from the taxes which the government imposed on its own subjects. The system had many undesirable results, and tended to prevent Turks or Egyptians from organizing commercial enterprise and thus to encourage deeper European penetration. But if the Near East was to be opened to western material civilization, some such system was inevitable, for the different conceptions of East and West made the carrying-on of a western business under eastern administration impossible.

The process outlined above, by which financial speculators became established in Turkey and in Egypt, led in the last quarter of the nineteenth century to similar steps for consolidation and control being taken in both countries. In each case creditors were able to persuade their governments to support their demands for payment of debts, and foreign organizations were created to enforce them. In Turkey the administration of the debt was handed over to a commission known as the Dette Publique (1881) to which a large proportion of the revenues of the country were paid to meet interest charges on the debt. This commission consisted of members taken from most of the western European countries interested in trade with Turkey, and its chairman was chosen from representatives of the various countries in turn. The chief source of its income was the customs duties, and a provision was made by which these might not be raised above 8 per cent. by the government, without the commission giving its specific consent. It was an arrangement which, obviously, offered the commission a considerable degree of political control.

The possibility of opening up the interior of Turkey in Asia by a railway from the Mediterranean to Mesopotamia was long discussed, but to raise the capital for a scheme which could scarcely prove immediately remunerative was difficult, and when in the last twenty years of the century financiers were seeking such opportunities for long-term investments there were political difficulties. Germany was very sensibly trying to open up for herself new markets accessible by land, and the Near East offered opportunities. In 1888 a German company was formed to which the Turkish government granted the concession extended in 1903 for the Baghdad line. Unfortunately the problem was not purely an economic one. The line would make Turkey a much more powerful political unit, capable of enforcing conscription and moving troops rapidly, and it was feared by Germany's rivals that she proposed to use the railway as a means of securing political predominance in the country. When the Entente was formed in 1903, anti-German feeling in England grew, and it was seriously stated in the House of Commons that 'this was not a railway, but a financial fraud and a political conspiracy—a fraud whereby English trade would suffer, and a conspiracy whereby the political interests of England would be threatened. It amounted to a military and commercial occupation by Germany of the whole of Asia Minor.' Behind this opposition there was not only the prevalent distrust of Germany, but also the interests of established commercial institutions on the spot, such as the already existing British railway in western Asia Minor or the British navigation company which provided the only existing modern service of communications in Mesopotamia. On the outbreak of war in 1914, though agreement on the question had at last been reached on the point between England and Germany, it had not yet been definitely confirmed. The Baghdad Railway scheme accomplished little but the embittering of international relationships.

Other enterprises undertaken in Turkey on a smaller scale by Germany, England, France, and Italy had been more successful. Western ideas had been steadily gaining ground among a small but influential clique, and the Great War, in which at an early date Turkey joined the Central European powers, worked a transformation. The long-foreseen collapse of the Turkish empire duly took place. The British and

French acquired territories either definitely annexed (as was Cyprus) or mandated—which in some instances came to the same thing, in others did not. What had not been foreseen was that a progressive Turkey might rise from the ruins of the empire. So far from Turkey becoming a province of one of the western powers, she became once again herself an effective independent force in the Near East. A similar determination marked some of the 'succession' States. Iraq had assumed a new economic importance since the discovery that it possessed oil resources, and by the treaty of peace Great Britain held it under a mandate from the League of Nations. But both in Iraq itself and also in this country there were persistent demands that this should not be allowed to become, for the sake of the oil wells, a new imperial commitment, and Iraq is to-day an independent power. The oil is worked partly by British, partly by French interests, and is taken to the Mediterranean ports by pipe lines which are among the greatest engineering works of their kind. Royalties for it are an important source of revenue for the Iraq government.

Egypt, though nominally part of the Turkish empire until the outbreak of the Great War, had achieved virtual independence in the early nineteenth century. After the Napoleonic wars Mehemet Ali embarked on extensive westernization. The most successful of his methods was the organization of the cotton-growing industry. By the 1820's the importance of this raw material to world trade was evident, and it rapidly became the largest item in Egyptian exports. It has remained since that period the staple of Egyptian trade, so much so that in 1913 exports of cotton, cotton seed, and cotton cake amounted to 93 per cent. of the total exports. The dangers of this reliance on a single raw material have become apparent in the post-War period with the vast extension of the supply which has become available. At the time, however, the development of the industry was a stroke of genius. Mehemet Ali's régime produced also security—a blessing conferred at the price of native oppression.

By the middle of the century English and French influences were competing in Egypt, and in 1856 the British government opposed the granting of a contract for the construction of the Suez Canal to the French. They were appeased by concessions to the Eastern Telegraphic Company, and the Bank of Egypt. The reckless borrowing of Ismail, grandson of Mehemet Ali (1863–79), offered opportunities for deeper and deeper penetration to these foreign interests, which were guarded, as in Turkey, by the special privileges of 'capitulations'. The most notable *coup* in the process of penetration was Disraeli's purchase in 1875 of Ismail's share in the Suez Canal for £3,976,582—a step which gave Great Britain control of the Canal. As in Turkey and in China, penetration extended actually to the administration of the revenues, with the establishment in 1876 of the Caisse de la Dette, and later in that same year an English officer was appointed to control the revenues, and a French to control the expenditure. From this time onwards the exploitation of Egypt by foreign money-lenders received some check, though to some extent the mischief had been done and Egypt was already saddled with a heavy burden of debt. In 1882 the British government intervened in Egypt to protect British interests involved against the bitter anti-European feeling to which the extension of European control had given rise, and this intervention was prolonged until after the Great War. But though intervention had taken place on behalf of European interests, the benefits it conferred on the peasantry and on conditions in the country as a whole are indubitable. English economic interests in the country were naturally centred in the cotton trade, since England was and is far the largest consumer of the very fine 'long staple' cotton which is the characteristic Egyptian quality, but during the period of occupation engineering works of many kinds, including extensive irrigation and various financial enterprises, were undertaken, each increasing the commercial interests of Britain in Egypt.

The growth of western ideas was even more noteworthy than in Turkey, and a nationalist movement inspired by

European liberal thought of the nineteenth century was a powerful force in the post-War period, and was supported by a strong Egyptian press. To British control and to British interests in general this party was hostile. British imperialists were faced, therefore, with a similar dilemma to that which faced them in India. They had proclaimed that their intentions were to set Egypt on its own feet; but under the protection of their control, British and other European business interests had grown up which would be threatened with heavy losses if the control should be withdrawn. The peasantry was obviously on the whole better off under British control than it would be when that control was removed.

As in India, the solution found was a compromise. In 1921 the British protectorate was withdrawn, certain matters being reserved under British control, and since that date Egypt has enjoyed virtual independence except in military matters. It looks as though, under modern conditions, the old pre-War forms of imperialism had become out of date. They cannot be made to pay, and there is, at least in this country, a growing popular sentiment against them.

European commercial penetration is seen in its most unpleasant light in the history of Persia before the War. It began partly with loans to extravagant rulers, partly with commercial concessions of the usual kind, one of which is described by a bitter critic of pre-War international politics as follows:

> 'We hear of a concession given to an Englishman for the production, sale and export of all the tobacco of Persia. It appears that the capital of the proposed British corporation was £650,000, and that it expected to net an annual profit of £371,000. Not a bad percentage on the capital! But then, there were the risks, and in this case they proved to be considerable. For the concessionaries had reckoned without the religion of the Persians, which forbade them to touch tobacco soiled with the hands of infidels. The tobacco, accordingly, was boycotted and the concession withdrawn. But in compensation for its withdrawal the Persian people were mulcted of half a million. This they borrowed from the

British bank—"The Imperial Bank of Persia"—at 6 per cent. So that British interests, on the whole, were pretty well paid for doing nothing, and paid, of course, by the Persian peasant.'

The example may fairly be taken to illustrate the worst side of western commercial expansion. As in almost all instances it was not one party, but both, which were at fault. Unfortunately, however, when it came to the point of establishing claims, one party had overwhelming force behind it, and the other had not. It is easy to sympathize with the mood of that Shah who had remarked, in 1896, that he 'wanted ministers who did not know whether Brussels was a city or a cabbage'.

Here, as in Turkey, political considerations were involved with commercial. The two powers chiefly concerned, in the early years of the century, were Great Britain and Russia. As a result of the Entente their differences were shelved in face of the growing fear which each entertained of Germany, who by her construction of a Baghdad railway was gradually winning an increasingly important position in near eastern trade. Russia and Great Britain, therefore, agreed to partition Persia into two 'spheres of influence' with a central zone between them. It was not only the prospect of constructing railways, roads, and telegraphs which seemed likely to be lucrative. Great oilfields had been discovered and there were many who recognized that oil was the fuel for the battleship of the future.

Meanwhile, foreign traders had secured 'capitulations'[1] which made them for certain purposes independent of Persian courts, and as the country became increasingly indebted to European financiers a control of the customs similar to that established in Turkey was created, and on these revenues the foreign debt had the first claims. Great Britain and Russia were able to maintain German exclusion from Persia, though as the work of the Baghdad railway advanced Germany's claims grew stronger. In 1911 the Persian government determined to appoint an American, Mr. Morgan Schuster, to

[1] This term is not strictly applicable in Persia as it is in Turkey.

reorganize Persian finances, and the British and Russian governments did not oppose the appointment from fear of alienating American feeling. Mr. Schuster's book is one of the most damning indictments of pre-War imperialist policy. He saw the necessity of drastic reorganization including the transfer of control over the customs revenue to a new Treasurer-General, and the appointment of a police force to see that the revenues were paid. A revolution soon after took place, in which the Russians played a discreditable part. It involved the Treasurer-General in a quarrel with Russian cossacks, and this led to a Russian invasion of Persia, the resignation of Mr. Schuster following Russian demands, a massacre in Persia carried out by Russian troops, and the Russian claim to an indemnity to cover the costs of these punitive measures. Russian policy was certainly guided by the motive of keeping Persia weak and thus both politically and economically at her mercy.

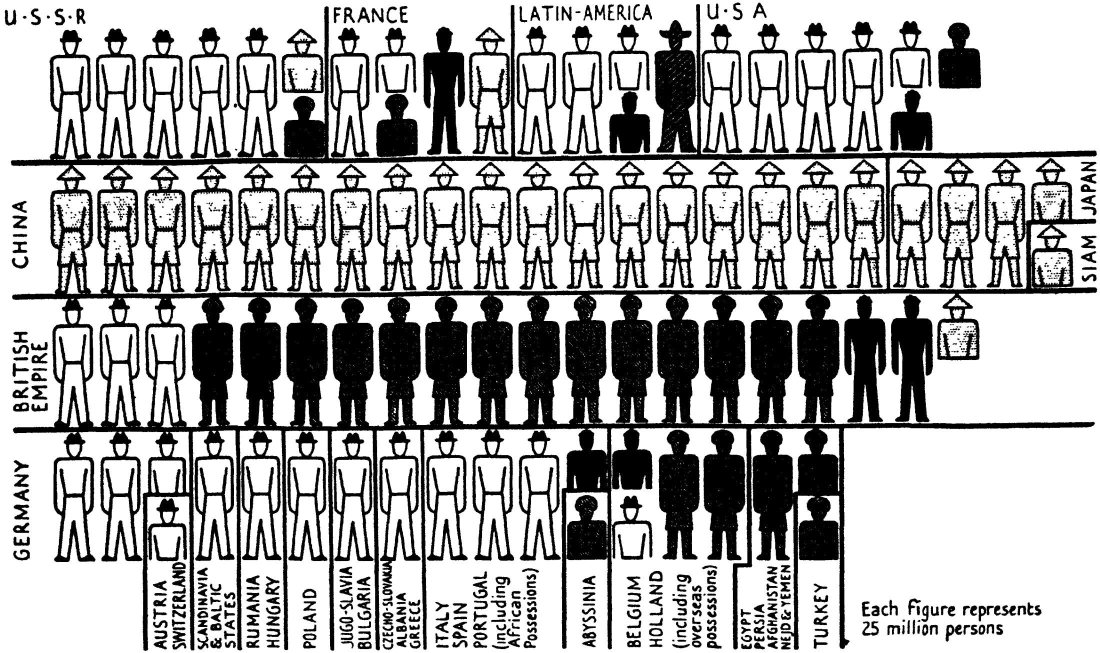
But in Persia, as in Egypt, the War changed the situation. The creed of the Bolshevik government was opposition to capitalist exploitation, and the Persian government had in it, therefore, a powerful ally against anything which savoured of exploitation. The result of this support can be seen in two instances. The first is the abolition of the privileges referred to above as the 'capitulations'. In 1928 these privileges were terminated, certain guarantees being given by the Persian government to ensure fair treatment of foreigners. The second is the revision of the terms of the concessions granted to the Anglo-Persian Oil Company. The Persian government cancelled the original contract, and this action was followed by a British appeal to the League of Nations. Action by the League proved unnecessary since a settlement was reached by direct negotiation between the parties. The fact seems to be that under modern conditions of publicity it is considerably more difficult than it once was for business interests to exploit less experienced communities.

If we compare the history of European penetration of the Near East with that of India, the reason why western imperialists failed to make good their hold on the Near East suggests itself. The Ottoman empire did not offer the splendid prizes which the Mogul empire offered in the eighteenth century, and it was not readily accessible to ocean trade routes. In the next chapter we shall see how India fared under British rule; but there also we shall see traces of the relaxation of commercial imperialism, for in India too there is coming into being a state which enjoys virtual economic independence of England, and in which political independence is on the way. These examples would suggest that the tendency of the times is centrifugal, whereas in the last chapter of this section, where the imperialism of Japan is considered, we shall have an example of a different tendency.

XV

INDIA

In earlier chapters of this book something has been said of the fabulous wealth of Indian commerce in the first centuries of the Christian era, and again in the Middle Ages. It has also been seen already how commercial rivalries led the East India Company to annex vast territories in India, and how great were the profits which this new form of business appeared to the first administrators to offer—administrators 'born in humble stations' (as Macaulay described them), 'accustomed to earn a slender maintenance by obscure industry', and suddenly 'transformed in a few months from clerks dozing over desks into statesmen and generals with the revenues of Kingdoms at their disposal'. In the course of two generations these conceptions were radically modified by the facts. Some consideration of the welfare of Indians must be made if commercial imperialism was going to be tolerated by a public increasingly conscious of 'the rights of man'. Burke's prosecution of Warren Hastings, and the agitation in favour of the



IX. WORLD POPULATION

abolition of the slave trade (which came within an ace of success before the reaction caused by the excesses of the French Revolution postponed it indefinitely) both showed this conclusively. During the first half of the nineteenth century, the dominions of the Company were becoming steadily greater—a process which ended with the absorption of the Punjab in 1849—but its commercial activities were steadily diminishing while its political responsibilities were becoming more deeply felt. The Company became, in fact, a civil service for India, with a loose connexion with the home government and various unfortunate commercial survivals attached to it ('the exclusive right of trading with the Dominions of the Emperor of China and of trading in tea') which were not abolished till 1833. In his speech quoted above on the Government of India Bill, which became law in that year, Macaulay congratulated himself that in the government of India he saw 'a government anxiously bent on the public good. Even in its errors I recognize a paternal feeling towards the great people committed to its charge. I see toleration strictly maintained. Yet I see bloody and degrading superstitions gradually losing their power. I see the morality, the philosophy, the taste of Europe beginning to produce a salutary effect on the hearts and understandings of our subjects.' If the government of India was left till the mutiny in the hands of the Company, that was because the Company was regarded as possessing experience, and as being better able to devote itself to the affairs of India than Parliament at Westminster, which was preoccupied with England and Europe.

The external trade of this great region in the first half of the nineteenth century was relatively small, as was also the internal trade. We are told that the average cost of conveying a ton of goods a distance of a hundred miles in India, inland, was 56*s*., which was equal to more than half the freight of a ton by sea from London to Calcutta. Cotton, corn, 'oleaginous plants', and sugar were the chief articles of commerce inland; but inland commerce was fettered by the imposition of customs dues in the districts through which goods passed, and these persisted throughout most of India in the fifties. Development had indeed hardly begun. The British East India Company's exhibit at the Great Exhibition in 1851 consisted largely of objects of brass, copper, and pottery, 'all', we are told, 'highly curious', and included a large hookah in iron inlaid with silver, 'very elegant in form and of highly finished workmanship', ivory furniture, a royal state bedstead from Benares, and many other curios. But the impression generally left was of resources which 'except for articles of show and luxury, have as yet experienced a very slight degree of development', and it was generally considered that only the opening of railways could promote real progress in the inland districts. Thanks indeed to the success of the Opium War,[1] opium was shipped to China in 1850 to an estimated value of £4 million. Exports of indigo were worth about half as much, exports of cotton £1½ million, exports of sugar and silks about £1 million each, and exports of saltpetre and rice about £½ million between them. In the few years following the exhibition great efforts were made to modernize the country. The railway and telegraph were introduced, and the postal system was improved, as was the system of roads and canals. But western methods were regarded by the average Hindu wrongly as sorcery, but rightly as subversive of the existing order, and the discontent which they and other measures engendered flared up in 1857 in mutiny in the Indian army. Its suppression left the way open for further developments, as an illustration of which the steady growth of railway building can be taken. In 1860 there were 840 miles of railway open in India. In 1870 there were 4,830, in 1880 9,310 miles, and by 1900 over 20,000 miles. With this growth came development of the export trade of India. It had been worth in 1851 something just over £18 million, and was worth in 1887 £68 million, the total value of the external trade (including imports) reaching approximately £117 million. By 1929 the value of this total external trade was approximately £400 million. In the trade of the last half century opium has played a relatively unimportant part. The value both of cotton and of grain exports in 1889 was already at approximately £15 million each, half as much again as the value of the opium exported, while jute (for the manufacture of sacking, &c.) was at £7 million an important article of commerce, and the Indian production of this commodity was going to develop into a virtual world monopoly.

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[1] See below, 362.

But the population of India is approximately equal to that of the British Isles, France, Germany, Italy, Spain, and the United States put together, and a total external trade of £400 million gives only, therefore, 22*s*. per head, as contrasted with £49 for Great Britain, and £64 for New Zealand. This fact brings out the poverty of Indian life. The modernizing of India, though it has drawn the villager into the net of world commerce, has hardly modernized his life at all. A minute fraction only of the population (in 1921 it was about 7 per cent.) can read or write. The ordinary villager has his rent to pay to his landlord or his revenue to pay to the government, produces his crop, say, of wheat, and sells any surplus over and above his own wants generally to the village moneylender to raise the money for these payments; and thus the grain he grows becomes an article of world commerce. Indian critics claim that money spent on westernization has been largely misspent, and that though modern hospitals and schools have been provided for a small number of Indians, the mass of the population has hardly benefited by this expenditure. The figures suggest that this criticism is not wholly without foundation, and that money might sometimes have been spent to greater advantage if less high standards had been adopted; but railway construction and irrigation works have generally justified themselves by their financial results; and on the material side British administration has, on the whole, been greatly to India's advantage.

British rule in India has been the envy of the great European nations, partly because the service of the Indian government provides a career for thousands of men in the upper and middle classes, partly because it was so profitable to England.

During the ten years ending in 1886, Great Britain sold on an average £43·7 million worth of goods to India. In 1889 the figure was £66·6 million, over half of which was textiles. The East Indies were, in fact, far the largest customer in the world for British manufactures of cotton cloth, and they actually took in 1889 approximately 40 per cent. of the total manufactured—a third as much again as was absorbed by the United Kingdom market. And quite apart from this, British interests in India were enormous—including investments in government stocks, railways, banks, tea and coffee plantations, mines, and businesses of innumerable kinds. These investments provided great opportunities and great profits for British business, and they have been one of the main reasons for British reluctance to relinquish political control. The attitude may or may not be justified, but it is certainly not difficult to understand.

By the end of the century competitors were beginning to show themselves. In 1887 Great Britain retained 58 per cent. of the Indian trade in her hands. Ten years later her share was only 45 per cent., and there had been a prodigious increase in dealings with China and with Germany. Moreover, India herself was beginning to compete with England in the supply of cotton goods, and by 1913 Indian mills were producing nearly a third of the total consumption of manufactured cotton cloth. British manufacturers did not let the market out of their hands quite without protest. Their agitation secured the exclusion of British goods from the tariff of 1894, which imposed a general import duty of 5 per cent. This was rightly regarded by some Indian administrators of the time as a 'concession to British interests, which would damage Indian confidence in the British government'; the situation has now changed, and the government of India, like those of the Dominions, is in a position to regulate its own trade relations.

The War was a period of rapid change in India as it was elsewhere throughout the world. As in almost every other overseas region, Britain's share of Indian trade declined.

While British manufacturers were engaged in supplying extraordinary demands for War material, Japanese manufacturers seized the opportunity thus offered, and Japan's share in the total trade of India leapt from 2 to 20 per cent. during the period 1914–19, Japanese textiles in particular having to a large extent replaced British textiles. This position has been (in spite of fluctuations) generally maintained, and the imports of Lancashire cotton into India are now a mere fraction of the pre-War figure. As India was buying more goods from Japan, so she was selling more of her own products, and especially her raw cotton, to Japan, and the development of these relations has encouraged the 'Pan-Asiatic' ideas of the more extreme Japanese imperialists. The most significant feature of recent years, however, has been the growing economic independence of the country, a movement to which we have already seen parallels in the Dominions and which has been reflected in the demand, to some extent realized, for a measure of political independence also.

The social effects of westernization in India would remain an accomplished fact if Indian mills supplied all the goods which Lancashire now sends to India. The use of European machine-made goods has destroyed the village industry of spinning, and to some extent weaving, which used to provide the villager with the clothes he needed and with a small surplus. Climatic conditions make it impossible for agriculture to occupy more than a small part of the villager's year, and under present conditions it is inevitable that he should be idle for the remainder of the year, spending his time and, what is much more important, his little money, on lawsuits with his neighbours. Some Indian reformers such as Mr. Gandhi think that the process of westernization can be reversed and the manufacture of home-spun yarn reintroduced into Indian village life, but this is a solution which few people believe to be possible. Western material 'civilization' has a way of taking social developments into its own hands, and the western countries themselves have not learnt to control it.

XVI

CHINA AND JAPAN

THE meeting of eastern and western civilization in the Far East has created some of the most interesting and most difficult of modern problems. The population of China comprises one fifth of the human race. In China originated three of the inventions from which the modern world has developed: the mariner's compass, the manufacture of paper, and printing. Yet while she has remained content with obsolete methods, Japan by contrast has succeeded in making herself already one of the foremost exponents of the western technique she has adopted. Circumstances have combined to emphasize the differences between them. China is a vast country in which a number of different languages are spoken. Japan consists of a series of relatively small islands in which a national feeling is as natural a growth as it is foreign to China. There is only one natural feature of China which makes for unity, the river Yang-tse-Kiang, which is said to be the commercial artery of 180 million people But in the Mongol period a capital was created for China outside this region, at Peking: perhaps architecturally the most wonderful capital in the world, but one which was inevitably out of touch with the real China, and which by its position, therefore, made for decentralization rather than concentration, and separation rather than unity.

This disability has been emphasized by contact with western commerce. Portuguese policy in the sixteenth century was not to annex territory, but to create a maritime empire based on a number of naval and commercial stations. In 1557 the Portuguese succeeded in establishing a trading station at Macao, remote enough from Peking for the local officials to disregard the authority of the capital, and the main centres of foreign commerce in China since that date have always been at a great distance from Pekin. By the mid-sixteenth century the Spaniards had begun to visit the Spice Islands, and the annexation of the Philippines took place in 1543. A year before some Portuguese, driven by a storm to Japan, had made the first landing there. Among them was a Jesuit, who worked with brilliant success in Japan, his order making large numbers of converts. Spanish missionaries, especially Franciscans and Dominicans, also arrived, of whose work the Japanese authorities became increasingly suspicious, believing that the missions were the instruments of Spanish imperialism. Accordingly, about the turn of the century a general expulsion of the missionaries and persecution of Christians was ordered.

It was at this moment that ships of Protestant countries, Holland and England, first reached Japan. They represented themselves as believers in a different religion, which made them more welcome, and one of the first Englishmen to reach Japan, Will Adams, was retained in the service of the Japanese Court and introduced into Japan western methods of charting and navigation. In spite of persecution Christianity extended, and accordingly the Japanese authorities determined to close Japan absolutely to western influences. She had learnt enough of western methods to make this possible, and Europeans were thereafter effectively excluded till the mid-nineteenth century. The Dutch alone were allowed to establish a factory on a tiny island in the harbour of Nagasaki, where they might be visited by a ship a year. Thus the exquisite objects of Japanese craftsmanship which the Dutch East India Company brought to Europe, though they were fashionable, were expensive.

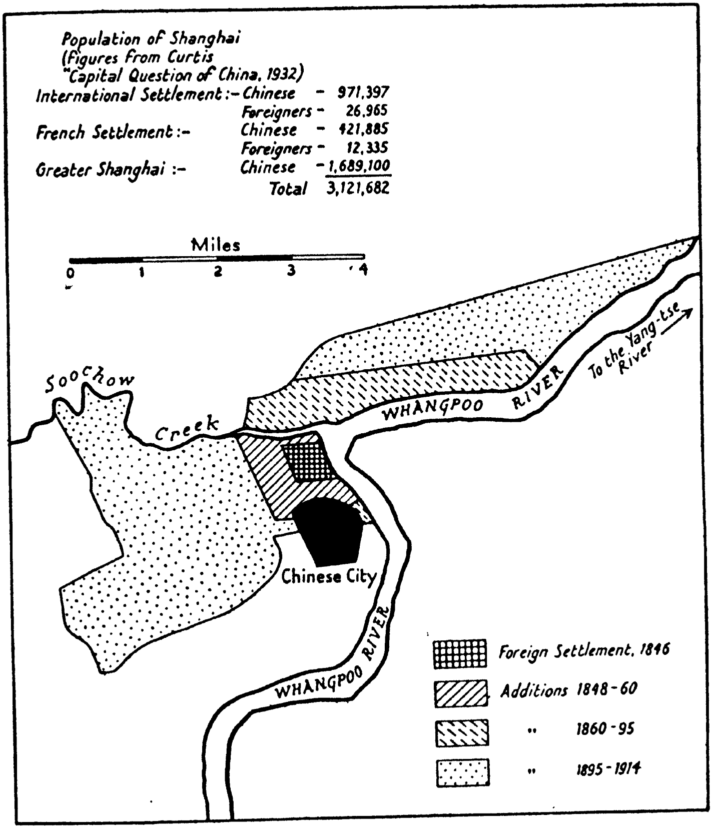
In China such a policy was impossible. Canton, the first Chinese port which European shipping reaches, is a thousand miles from Peking, as the crow flies; and as the Chinaman does not do anything so precipitate, the distance is considerably greater in practice. The control of trade was bound to be exercised by the local mandarins, who were generally prepared to allow it provided it was made worth their while to do so. Silks, sugar, and spices began in the seventeenth century to be supplemented by tea, which in the eighteenth increased steadily in popularity in England. In 1624 the Dutch company had established a depot for Chinese trade at Formosa, and by the end of the century the English company had the right to a factory at Canton. Europeans were virtually confined to the site of their factories, and traded only with the guild of Chinese merchants created for the purpose. In addition to silver, which was the chief import from Europe, opium began to be brought from India, though its sale was against Chinese regulations.

This system worked, not without protests being made, until the British company lost its monopoly in 1833. With Canton used by large numbers of merchants, it was almost impossible to see that the regulations were observed. By this time the import of opium was creating a financial problem in the drain of silver from China. The great period of the manufacture of Chinese porcelain was over, and European needs were now mainly supplied by French, German, and English manufacturers who had discovered what had for centuries been a Chinese trade secret. The main export was tea, of which Great Britain bought in 1844 52 million lb., more than two-thirds of the total amount sold abroad; and silks were still an important export. But the imports of opium were so large that large quantities of silver left China every year to pay for them. Then about 1835 the party in favour of a stricter application of prohibitions came into favour in Peking, and a large quantity of opium was seized by the Chinese. In this the British officer in charge acquiesced, but he refused further demands, and was supported by a military and naval force. The 'Opium War' which resulted lasted for three years (1839–41). At its conclusion, Hong Kong, then an uninhabited island, was demanded from the Chinese to serve as a British depot, and Canton, Amoy, Foochow, Ningpo, and Shanghai, the first 'treaty ports', were opened to foreign trade. Though nothing was stipulated in the treaty as to the opium traffic, the trade was revived on a larger scale, for it was now an important source of revenue to the Indian authorities. The privileges obtained for British merchants by the treaty were to be equally available for other foreign traders, and foreigners were gradually admitted to China for other purposes besides those of trade. They were under the jurisdiction, not of the Chinese authorities, but of their own Consular officers, and this system, with some modifications, still continues in the treaty ports, where 'concessions' were leased by the Chinese government to the various foreign communities concerned. The nations chiefly concerned during the first half of the nineteenth century in trade with China were Great Britain and America. A commercial dispute in 1856 led to further hostilities, at the end of which the emperor was compelled to legalize the importation of opium.

In the last quarter of the nineteenth century the value of European purchases from China remained comparatively stable, but sales to China steadily increased, stimulated by the competition for markets which was characteristic of the time. Western powers began to associate for such action as was necessary to obtain recognition of European 'rights'. A tendency for Europeans to despise the Chinese was now increasingly manifest, due mainly to the rapid growth of mechanical knowledge which gave western civilization an immense technical advantage. Such a sentiment, backed as it was by force, was naturally resented by the Chinese, and many anti-foreign outbreaks took place towards the end of the century. The most serious of these was the Boxer rising of 1900, which led to European reprisals, an attack on Peking, the sacking of the Summer Palace—one of the most magnificent palaces in the world—the seizure of a large portion of Manchuria by Russia, and the imposition of an indemnity which, though its amount was nominally assessed by the claims of injured merchants, is recognized to have greatly exceeded the just figure. The allied army was composed of contingents from Japan, Russia, England, U.S.A., France, and Germany. The Japanese contingent is said to have been the best disciplined and most restrained.

But there was a strong undercurrent of rivalry between the western powers. It was generally recognized that the monarchy would not last long, and each feared the imperialistic designs of the others. In particular the other European powers viewed with concern Russian annexations and railway concessions in Manchuria. Germany and England were equally anxious to secure railway concessions, and so Germany in 1897 seized the port of Kiaochow and extorted railway and mining rights. To preserve 'the balance of power', Great Britain obtained a lease of Wei-hai-wei. Each of the powers was desperately anxious to prevent China becoming the India of some foreign empire when the dynasty fell. It was a time when the rivalry between British and German heavy industries was becoming manifest (see p. 276), so that the competition for railway orders is easily understood. The vast increase in European trade with China at this time can be illustrated by the diagram on pl. 8 showing the growth of the European quarter at Shanghai. Just before the Boxer rising its size had been more than trebled by the addition of 4,000 acres.

By the time of the Boxer rising, Japan was on an equal footing with the western powers in China. The breaking-down of the regulations against Europeans in Japan had been the work of an American naval officer, Commander Perry (1853). American merchants were impatient to trade with Japan, and Japanese ports would afford useful coaling depots for American ships operating in Asiatic waters. The Japanese authorities decided not only to grant Perry's demands that trade should be opened, but to undertake an intensive programme of westernization. When Europeans first arrived, a similar system of concessions to that established in China was set up, but within less than a generation the concessions were abolished by mutual agreement. At the same time Japan was freed from the undertaking which she had originally given to impose only a low tariff on foreign goods. These changes are signs of the industrial, commercial, and financial advance which she had made during this period. In the twenty years from 1876 to 1896 her foreign trade rose in value from some-



X. SHANGHAI: to show the Growth of the Foreign Settlement (including the French Concession) 1846–1914

thing under £11 million to approximately £32 million. Its subsequent rise was to be even more noteworthy, for when the Great War broke out the figure was well over £100 million, and by 1930 £360 million.

Japan was by the time of the Boxer rising not only an ally but a rival of the European powers in China. Her position, race, and religion meant that her interests in China would be more intimate than theirs. As her industries developed the restricted area of her own territories began to be felt as an increasing handicap. In Manchuria supplies of coal and iron were available, as well as foodstuffs and raw silk. But Russia had undertaken a 'peaceful penetration' of Manchuria which stopped only just short of annexation. Japan therefore welcomed the possibility of an alliance with Great Britain directed against Russia. Britain's interests in China, unlike those of Russia, were centred mainly in the valley of the Yang-tse, and she had grievances against Russia in other parts of the world. Strengthened by this alliance, Japan fought Russia (1905), and the victory then won made her a great Pacific power.

It had other repercussions in the Far East, for it showed what the results of a calculated policy of westernization might be. The lesson was not lost on China.

The fall of the Manchu dynasty in 1908 removed the one existing centralizing force. Peking was out of touch with the new China which was based on the commercial heart of China, the Yang-tse valley. Thus began in 1908 a period which has been compared to Cromwell's 'government of the major-generals', since when the country has been controlled by a number of semi-independent military authorities, who only recognize the governments in Peking or Nanking so far as it suits them to do so.

The Great War gave Japan further opportunities in China, for the German colony of Kiaochow was taken by Japan, and the German rights in the railways of that region reverted to her. While the western powers were preoccupied in supplying their own war-time needs, she stepped into their place in

China. In 1920, 40 per cent. of Chinese imports were coming from Japan, while by means of government loans, investments of capital, and the establishing of banks she was obtaining a predominant commercial position there. At the same time it was significant that Japan protested against, and prevented, the formation of any efficient Chinese military force which might have taken part in the War on the side of the Allies. She was not prepared to see the rise of a powerful China. And there were good economic reasons for this policy. The population of Japan was increasing very rapidly, but a great part of Japan is mountainous, and the amount of land available for agricultural development is limited. The two possible ways of absorbing this growing population were overseas expansion and industrial development. Japan chose the latter. It involves her, as it has involved England (which adopted the same solution), in the search for markets overseas, and it is largely by this search that recent Japanese foreign policy has been directed. China strongly opposed Japanese claims to succeed Germany in Kiaochow, but they were finally recognized by the powers. The Chinese replied with a boycott of Japanese goods, which was so effective that Japan agreed to reconsider the question of her rights to Shantung at the Washington Conference (1921–2); for the mainspring of her interests in China was commerce, and if the Chinese refused to buy her goods, imperialism had failed in its first object. Japan therefore agreed to evacuate Shantung within nine months. A policy of force can be used with success where the question at issue is the control of sources of supply, while it cannot be successfully used to sell.[1] As raw materials tended to become more abundant, this problem of markets was that to which Japan's attention was mainly directed. Her manufacturing costs were remarkably low, partly because labour costs were low, partly because her industrial organization was efficient. Cheap Japanese goods were often excluded by high tariffs from Europe and from European colonies, and it was of vital significance to her to ensure that some market for them was available.

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[1] The object of the Italians in Abyssinia was not to force the Abyssinians to buy Italian goods, but to secure the country for Italian settlement.

Other manufacturing countries were suffering similar difficulties in China. And the difficulties of all who sold to China were increased by the Russian propaganda there. Russian retaliation for the help given by the British government to the anti-Bolshevik cause partly took the form of propaganda against Europeans, and particularly against the British merchants, in China. In 1925 strikes in British-owned factories in Shanghai led to rioting, in which a number of Chinese were killed and wounded, and the outburst of hatred against foreigners in general, and Great Britain in particular, led to a boycott of British goods. The position of the western powers was a difficult one. They had become convinced that a policy of force cannot pay in the twentieth century as it might have done in the nineteenth, and negotiations were carried on with a view to the possible abolition of the concessions, but there was no one central authority (nor is there yet such an authority) by which any agreement reached could be enforced, and to abolish the privileges and immunities of westerners at a period when anarchy is liable to occur would increase rather than diminish the difficulties of the situation. As things were, in 1927 an international contingent, mainly British but including detachments from the U.S.A. and France, had to be sent to Shanghai to ensure the safety of the foreign residents. Soon after that time the situation was eased by the breaking-off of Chinese relations with Russia, a change largely due to the nationalists' desire to conciliate the powerful economic interests in Shanghai. But Russia had interests in Manchuria, and in particular the Chinese Eastern Railway in Northern Manchuria was the shortest route to Vladivostok and was controlled jointly by Chinese and Russians. The rupture was regarded by the Chinese as an opportunity for getting rid of this Russian influence in Manchuria, but when they tried to do so, they were confronted by an efficiently organized Russian military force which compelled them to recognize the rights of Russia to a share in the control of the railway.

The success of this threat of force was apparent to the Japanese, who had to contend in southern Manchuria with more serious difficulties than those which had faced the Russians. Japanese control of southern Manchuria had been for that country what British control had been for Egypt. As with England in Egypt, there has never been any question of the Japanese colonizing Manchuria. The climate is too cold. Manchuria has provided opportunities for the employment of Japanese capital, and this has been employed in giving the country an efficient transport system and developing its economic resources. This has given Manchuria more stable political conditions than those which have existed anywhere else in China during the period, and the result has been an influx of Chinese into Manchuria, which is the most remarkable movement of population that has taken place in modern times. During the period 1905–32 the population of Manchuria approximately doubled. This meant an increase of 14 millions, of whom 13 millions were Chinese. These figures should be compared with those of emigration into Canada and Australia (p. 340) during the last century. But the anarchy which had spread throughout China had penetrated to Manchuria also, and anarchy is always the greatest enemy of commerce.

That the Japanese should have found it necessary to use military force in order to protect their interests in Manchuria is thus explicable. But unfortunately, Japan, believing (perhaps quite rightly) that she would not get a 'realist' view of the situation accepted by the Council of the League of Nations at Geneva, took military action in direct violation of her obligations under the Covenant of the League and her obligations under the Nine-Power Treaty. By these means she attained her immediate objective and set up a vassal state of Manchukuo in place of Chinese Manchuria; and it does not seem likely that she will rest content with that. Her action struck the first serious blow at the collective system which had been embodied in the Covenant of the League.

Thus in two generations Japan had made herself the most important political and commercial power in Asia. If she is to maintain an expanding industrial population she must find markets for her goods. The older manufacturing powers have looked with disfavour on the increase in the supply of cheap Japanese goods competing with their more expensive products, and protective tariffs against them have been extensively imposed. Excluded from many of the world's markets, Japanese industry is attempting to secure for itself in China one market to which it may maintain exclusive rights. It is being backed by a powerful militarist clique which seems to be able to dictate policy to the Japanese Government, and seems prepared to use just those methods which European nations were beginning to discard. The next few years will show how far the policy is likely to succeed.

BOOK VI

THE WAR AND AFTER—A SUMMARY

XVII

THE WAR

BEFORE the Great War began the opinion was often stated that the delicate adjustment of international commercial relations made war on a large scale almost unthinkable. At midnight on 4 August, England declared war on Germany, and from the first it was a world war. On the evening of 5 August an English merchant vessel was captured in the Indian Ocean by a German cruiser. Since 31 July the New York Stock Exchange had been closed—and was not to reopen till 12 December; markets, shipping, and exchange were in a state of chaos all over the world. The prediction that high finance would intervene to prevent war proved unfounded, and as the war went on it became, in fact, apparent that mercantile interests stood to gain enormously by it. Never had there been such a ready market for produce and for manufactures. 'Business as usual' was the motto adopted by the commercial houses, carrying with it the suggestion of a gallant effort to meet a difficult situation. Many branches of commerce had, of course, difficulties to face, but for the vast majority of firms it was a period of unexampled prosperity. The needs of governments were immense. The wastage which modern war necessarily involves was in itself a colossal stimulus to production, and to meet their soaring debts belligerent governments were driven to print money, a process which helped rising prices to rise still further, and thus further inducements were held out to the manufacturers. Attention has recently been focused on the profits made by armament firms during the War, particularly in America, but profits almost equally large were made by firms which dealt in other forms of material. When the British government protested in the early years of the War that the increased volume of American trade with neutral countries could only mean that material was reaching Germany through these sources, it was pointed out in reply that British trade with neutrals showed a corresponding increase. 'The cry of "Business as usual" had largely governed British policy, no matter who the business was with, and but for this, Germany must have succumbed long before she did.'[1]

The pre-War years had been a time of peculiar industrial tension, not only in England but in Europe as a whole. The figures of industrial disputes in England for the past forty years show that more disputes broke out in 1913 than in any other pre-War year—the numbers of disputes rising fairly steadily from under 350 in 1904 to 1,459 in 1913. In Russia the industrial situation in 1914 was critical. 300,000 workmen are said to have taken part in the May-day riots in St. Petersburg (Leningrad). English statesmen, faced with industrial unrest as one of the three grave internal problems of the country, may well have found relief in the feeling that a war would unite the nation, and it is beyond question that this motive was a conscious one in some circles both in Russia and in Germany. The initial response in every instance must have been beyond the wildest dreams of those who wished to use war for this purpose. It was not till after two years or so of fighting that the old troubles began to reassert themselves, and in the end, as we shall see, war was fought to a desperate finish on the 'home fronts'.

In all countries which took part in the War, one problem was repeated. It was essential that production should be maintained at the highest pressure, and it was also essential that many of the most efficient workmen should join the country's fighting forces. The solution found was everywhere the same, and was one of far-reaching social consequences; women took the place of the men who enlisted. As a result the bitter suffragette controversy which had raged on women's rights died down. The immediate result of this adoption of women into industry and commerce was to make possible the enormous increase in production which war demanded.

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[1] Vice-Admiral Bax, in the *Encyclopædia Britannica*, 14th ed., article 'Blockade'.

During the first months of the War interest was concentrated mainly on the military and naval situation. But both on land and at sea the armed forces reached a position of deadlock after no very long period. The War became a war of attrition, in which it was not only the military and naval forces which were subjected to stress, but the civil populations as well. In past wars cities, but not whole countries, had been besieged. The plight of the Austrians in November 1918 is said to have been comparable to that of the citizens of Paris at the end of the siege in the Franco-Prussian war. The British set themselves the task of besieging central Europe, and it was the success of this siege, a success ultimately won with American help, which brought the War to an end.

Blockade is the obvious weapon for a strong naval power to use, but it has certain disadvantages. It can hardly avoid causing annoyance to neutrals, and for this reason England had been involved in war with the United States of America early in the nineteenth century. Attempts were made at various times after that war to establish agreement between the powers as to the rights of neutrals during the blockade, one of the main issues being the question whether 'free ships made free goods', i.e. whether enemy goods carried on neutral ships were liable to seizure by the blockading fleet. Shortly before the Great War broke out, a document known as the Declaration of London had been drawn up and had been signed by various powers. When war began, it was still awaiting ratification, a step which had been prevented in England by the action of the House of Lords. War at once showed that the formula adopted by the declaration 'free ships, free goods excepting contraband of war' was meaningless under modern conditions as soon as the official list of contraband goods began to be brought up to date. As early as 1915 the Foreign Office argued that it was justifiable to include foodstuffs for the civilian population in the phrase 'contraband of war'. Seeing that the character of war was changing, and that now it was not armies and navies, but whole populations that were involved,[1] there was some reason for this claim; for from the outset the change was recognized and both sides realized that the one way to victory was to break the morale of the civil population on the enemy side. From the early days, therefore, the object of British policy was to get as many different materials as possible recognized as contraband. To claim at an early stage in hostilities that cotton was contraband might have had the effect of bringing America into the war on Germany's side, for the cotton interests of the U.S.A. were very powerful. Accordingly, this claim was not made until long negotiations with America had been carried through, and then the British government guaranteed a minimum price for cotton. It is an interesting example of the power of business in wartime.

In spite of some brilliant achievements by isolated commerce raiders like the *Emden*, which during the first months of the war captured more than twenty allied merchant ships in the Indian Ocean, Germany could not directly challenge the blockade of her coasts which the British navy established, even if she might retaliate against it. She relied on military success to win the war for her rapidly. When this success was checked in the autumn of the first year of the War, she naturally sought some reply to the blockade. Early in 1915 the approaches to England were declared by Germany to be a war zone, and she announced that all British merchantmen which entered the war zone would be liable to sinking by submarine. The plan was a failure chiefly because the number of submarines available at that time was too small for the threat to take effect over a wide area, and after a year of negotiations the American president succeeded in extorting a promise from Germany (spring 1916) that she would sink no more merchant ships without warning. Meanwhile, the United States' relations with England were almost as strained as they were with Germany. The tightening of the blockade meant that the right of Americans to sell their goods wherever they pleased was curtailed, though their purses suffered relatively little, for cargoes seized during the course of the blockade were almost invariably bought up by the British government. But constant negotiation gradually made it possible to enforce the blockade more and more effectively, and by the middle of 1916 Germany's position was beginning to become very difficult. If it had not been for the acquisitions of territory in the Balkans when Rumania was defeated during the autumn of that year, followed in 1917 by acquisitions on the Russian front, Germany would have been desperately ill supplied with food long before famine actually came, and if she had not gained possession of the Rumanian oil wells, the supplies of petrol for her aeroplanes would have been quite inadequate.

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[1] Cf. a remark of Ludendorff quoted by Lord Cecil and Mr. Arnold Foster, in the *Journal of the Royal Institute of International Affairs*, March 1929: 'In this war it was impossible to distinguish where the sphere of the army and navy began, and that of the people ended. Army and nation were one.'

As things were, by the early months of 1917 the situation was serious enough for the authorities to be prepared for a revival of the submarine war, involving a certain rupture with America. The German naval authorities believed that with the greatly increased fleet of U-boats at Germany's disposal, it would be possible virtually to put an end to the importation of foodstuffs into Britain, and that this would force her to sue for peace. The latest type of submarine was immensely more powerful than the old had been. During the summer months as many as sixty submarines were at sea simultaneously, and the mercantile losses were gigantic. An American, Admiral Sims, has recorded a conversation which he had with Lord Jellicoe in April 1917. He discovered that 250,000 tons of British shipping had been sunk during the first ten days of that month alone, and records that Jellicoe said: "They will win, unless we can stop these losses, and stop them soon'. To the question whether any solution had been found: he replied 'Absolutely none that we can see now.'[1] The most successful system devised for protection was that of convoy. Twenty ships or more moved together, and this not only, paradoxically, made the ships more difficult to find than they would have been spread over a wide area, but also made it possible to provide them with a naval escort. By the summer of 1918 the worst of the danger was over, and new tonnage was being launched faster than the submarines could destroy.

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[1] For Jellicoe's rather different account of this conversation see Jellicoe, *The Submarine Peril*, pp. 70, 71.

The results, therefore, of the British blockade and of the German submarine campaign were that German overseas trade came to an end, except in so far as it could pass through neutral channels, while British overseas trade suffered very serious interruption. This interruption came at a time when British firms were already having to struggle hard to meet growing foreign competition. The demand for war materials necessitated the making of great changes by British firms, and though their immediate effects were most profitable for the industries concerned, they meant that foreign customers could not be supplied, and had to turn elsewhere. Thus our exports of coal to South America dropped between 1913 and 1924 by approximately one-third. The case of South America is instructive in other ways also. In 1913 South America took approximately 28 per cent. of her total imports from the United Kingdom, in 1928 about 19 per cent., the United States gaining rather more than Great Britain had lost. A similar change took place in China, where the United States and Japan shared the gains at Great Britain's expense.

At the time, however, business prospered exceedingly. Nevertheless, its activities were subjected, especially in England, to an ever-increasing measure of control, and the War was, indeed, the period when the advantages of control were most clearly brought out. Individual enterprise might be trusted to supply markets in the long run, provided those markets were profitable; but war meant the urgent necessity that the run should be as short as possible, and that instead of one firm being allowed to profit by an improved method, improved methods should be enforced throughout the whole range of production as soon as they became available. During most of the first year of War, the munitions required were produced by firms working on individual lines, with the twofold result that supplies were very short, and that (as it later appeared) the government was heavily overcharged for the munitions it bought. A Ministry of Munitions was formed in 1915 to co-ordinate production. Its task involved the organizing of the whole of engineering and allied industries as one co-ordinated unit. The relation of the Ministry to the different concerns involved varied greatly, and only a limited number of factories (though they were some of the largest) were directly owned and run by the Ministry itself. It was soon discovered that shells could be produced in such factories very much more cheaply than they were being bought under the old system. An arrangement was, therefore, reached by which the price paid for shells was based on detailed inquiries made by the Ministry into costs, with the result that the average price of 18-pounder shells was reduced from between 20*s.* and 23*s.* to 12*s.*, the price of 4·5 in. shells from between 47*s.* and 65*s.* to 34*s.*, and of other heavier classes of shells to a corresponding degree. The most striking testimony to the Ministry's efficiency is statistical. The output of completed rounds per week was ten times as great in March 1917 as it had been in June 1915.

Control of food in England developed on similar lines. It was evident from the first that the shortage of certain foods would be acute, for example, of sugar; for the bulk of British supplies of sugar were drawn from the beet-growing areas of central Europe. In August 1914 a royal commission was set up to purchase and import sugar on government account. In 1916 a similar commission was established to deal with the supply of wheat, and rapidly extended the sphere of its operations to include allied countries as well as Great Britain. By April 1917 it had taken over all the flour mills in the country. Meanwhile, the prices of foodstuffs of all kinds were soaring. In the autumn of 1917, therefore, the government reduced the price of bread by means of a subsidy, and fixed prices for meat. Compulsory rationing had already begun for sugar, but had not been extended owing to the government's fear of industrial unrest and owing to its desire not to encourage belief in the success of the submarine campaign. At the beginning of 1918, however, the decisive step was taken of rationing for butter, margarine, and meat. The experiment was first made in the London area, and a few months later was extended to the whole kingdom. By this time the total turnover of the government's wholesale trading in food was approximately £900 million a year, and certain fresh foods (milk, fish, vegetables) were almost the only kinds of food which did not pass at some stage through its hands. Prices of non-controlled foods rose more than ten times as fast between July 1917 and October 1918 as the prices of controlled foods, and the weekly consumption of flour per head in England was actually greater in 1918 than in 1914. The consumption of meat, sugar, and fats had decreased, but the decrease was not comparable to that in Germany, nor even to that in Holland (see table, Appendix II).

The main importance of the extension of control in England was that it familiarized British business with a new method. It proved conclusively that under certain conditions the system of allowing supply to depend entirely on the initiative of competing business is both inefficient and also unfair to the consumer, and of recent years there has been, from within industry itself, an increasing demand for control in certain limited ways. The Ministry of Munitions showed that at a time of crisis the State could organize production more effectively than any other organization. The Ministry of Munitions was, in fact, the prototype of the Five Years' Plan.

After the first enthusiasm had died, the War years were in all European countries a time of increasing uneasiness among the workers. Though in some trades the workers' real wages substantially increased during the War period, in many this was not so, and this naturally aroused discontent with the 'profiteers' into whose pockets the gains of war industry were flowing. In England serious trouble came in 1917, thanks to the ill-judged action of a Rochdale firm, whose response to the Ministry of Munitions' efforts to mediate was that 'as they had run their own business for many years themselves, they did not intend to alter their methods for the ministry or any one else; if they were to be forced to give way to the trade unions, they would close the works.'[1] The dispute ultimately involved hundreds of thousands, and a skilled observer of the industrial situation wrote at that time that 'neither class knows how angry the other is. Meanwhile the talk about following the example of Russia is being heard everywhere.'

What was serious enough in England was bound to be far more serious in countries where the food shortage and the use of 'substitutes' brought about what were practically famine conditions. German writers have maintained that the blockade was responsible for three-quarters of a million deaths among the civilian population. Moreover, labour unrest was the only political weapon available for the working classes in Germany, and as the government became more dictatorial with power passing into the hands of the general staff, strikes were used to urge political grievances. Trouble began in the summer of 1916, and early in 1917 there were strikes in Berlin involving 200,000 workers, who only consented to return to work on being promised by the government an increased food ration. Strikes both in Germany and Austria took place in 1917 on a large scale, and a gigantic strike inspired by the successes of the Austrian workers was engineered towards the end of January 1918 in Berlin. It spread rapidly till in Berlin alone there were over half a million strikers, and throughout Germany more than a million. The strike was broken by Ludendorff. A state of siege was proclaimed in Berlin. Strikers were dispersed by police, and many arrests were made, ringleaders of the movement who were reservists being compelled to join the regiments. Seven large concerns were put under military control, and it was announced that any employees who did not return to work would be dealt with under martial law. In view of the gravity of the situation in Germany, the last great offensive of the German army that spring was an astonishing achievement.

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[1] This and the following quotation are from the *War Memoirs* of Lloyd George, vol. iv, pp. 1942, 1943.

But in the end material won. German foreign trade had been completely strangled by the blockade. The theory that the German armies were 'stabbed in the back' by a revolution at home is a myth. Germany was beaten weeks before a revolution broke out; but she was beaten as much by lack of food and materials as by armed forces.

XVIII

AFTER THE WAR

I. RECOVERY AND PROGRESS

We have seen in the last chapter some of the effects of the War on world commerce. All over the world factories had been adapted to produce munitions of war for which the market was for the time being literally unlimited; the resources of allied and neutral countries could not produce munitions as fast as the armies needed them. We have seen how the result of this was that markets hitherto supplied by European firms were now supplied with American or Japanese goods or themselves set about manufacturing goods which they had hitherto imported. Thus in India, where before the War Indian mills had supplied some 30 per cent. of the Indian consumption of mill-woven cloth and English mills had supplied over 68 per cent., (almost the entire balance), by 1929 Indian mills were producing 52 per cent., and Great Britain only 42·5 per cent., the remainder being bought from Japanese or Italian firms. To some extent these changes were only the rapid fulfilment of tendencies apparent before the War. It was inevitable that as the methods of Industrial Revolution spread, highly industrialized countries should to some extent lose their key position.

European manufacturers during the War had made money, but they had made nothing else of permanent value. The indebtedness of countries at war had gone up by leaps and bounds, to supply weapons of destruction which after the War were so much scrap iron, ships which were sunk by submarines, or uniforms which after the War nobody wanted. Neither England, France, Italy, nor Russia had had ready money available to pay for the supplies they required, and all had had to borrow. English investments in America were gradually used in buying the supplies needed for herself or for her allies, for, because it was of the greatest importance to her that they should be equipped as well as she, she was prepared to guarantee their debts. In this way not only was the debt of America to Europe, borrowed originally to finance her industrial expansion, paid off, but allied indebtedness to America soared to almost unimagined heights. The old countries of Europe were all of them saddled with national debts already. The United States could afford to create one. Thus the American government in its turn guaranteed allied loans, paying the manufacturers with money borrowed in the United States. When the War ended, therefore, the financial relations of the various powers had been radically changed, and America was now a leading creditor country. This necessarily meant a change in the flow of trade. For Europe to pay her debts in money was inconceivable. The cash was not in existence to do so. All Europe could do was to try to pay her debts by securing a favourable trade balance with the United States, for if she sold there more goods than she bought it would mean that the balance owed by American buyers to European sellers could be used for paying the debt to the American government. But was Great Britain, and was Europe as a whole, to give up receiving American manufactures and to send instead large quantities of her own manufactures to America in order to pay the American debt? Such an arrangement would hardly satisfy the Americans, for it would mean that the American manufacturers' home markets suffered serious invasion, and their markets abroad disappeared. The Americans accordingly put up their tariffs and demanded money payments which their debtors ultimately found they could not make.

Commercial problems complicated by inter-allied indebtedness were complicated still further by reparations. The victorious allies had demanded full payment by Germany for damage caused in the War, and this was finally taken to mean as much as Germany could possibly pay. The problem was once again—to take one particular case—whether Germany was to resume her pre-War position as one of Great Britain's best customers, or whether she was to buy nothing from Britain, but only sell to her, with a view to securing the necessary trade balance to make the transfer of large sums possible.

In the years immediately following the War it thus soon became apparent that most of the European countries were unable to sustain the vast burden of war debts or of reparations. War production, moreover, had been abnormal both in quantity and in nature, and readjustments took time to make. Ship-building is an example. The submarine campaign created an artificial demand for new shipping, and the world's capacity for producing ships approximately doubled —the greatest increase being in the United States. After the War the docks available for ship-building were far in excess of the world's needs, and some other employment had to be found for an enormous body of labour. Since England had built the bulk of the world's tonnage in pre-War times, the process of readjustment necessarily hit her hard, for those countries which had learnt to supply their own need naturally continued to do so. For such difficulties time was the only solution. But for the financial obligations which were the result of the War there were two possible remedies. One was a general scrapping of mutual indebtedness as a preliminary to reconstruction. It is generally recognized now that it would have been a wise measure for all concerned, but at the time it seemed a fantastic suggestion. The other solution was inflation. If the amount of money in circulation in any country was increased, its value decreased, and when the process was carried far enough its value disappeared entirely. This meant that internal debts were wiped out. Moreover, such inflation strengthened the position of the exporter, for he was only too glad to accept a little good foreign money for his manufactures; and his prices were ludicrously low when reckoned in any stable currency. Such money as he made at home he could not save, for if he kept it, its value declined. So he spent it as soon as it was made, probably on improved plant which would be a solid asset whatever happened to the currency. Thus inflation was an obvious course to take, though it had social disadvantages. It meant that the family with a fixed income derived from securities had its income reduced virtually to nothing. Only the manufacturers and farmers stood to gain. They found the value of their goods and property steadily multiplying on their hands, and it was impossible for them, even had they wished to do so, to keep pace with inflation by raising wages higher and higher. The process was carried so far in Germany that by November 1923 an English shilling was worth approximately half a billion marks. By thus depreciating the value of the mark the government virtually repudiated all its internal debts, making over at the same time substantial gains to business interests. Other countries on the continent of Europe followed the same course.

That England succeeded in avoiding this solution was one of the most remarkable differences between her post-War history and that of the rest of Europe during this period. But in her case, too, the loss must be reckoned as well as the gains. She failed to reduce her debt, and a large proportion of her budget each year is appropriated to the service of the interest on this debt. This has meant a considerable burden on the industry of the country and has made the recovery of industrial prosperity slow. Prices of home-produced goods remained high in relation to the English prices of imported goods. For as foreign currencies became more and more worthless, they were cheaper and cheaper to buy, while it was almost impossible for foreigners to buy British currency to pay for their purchases. Thus England bought from them but could not sell to them, and if this meant cheap goods in England, it also meant unemployment.

There is no doubt, moreover, that the economic difficulties of Europe had been enhanced by the territorial subdivisions brought about by the Treaty of Versailles. Though the pre-War economic system had covered most of the world, the makers of that treaty 'Balkanized' Europe so that in a region previously occupied by the German, Austrian, and Russian empires, there came into being no less than ten political units. It is an interesting example of economic and political tendencies apparently in direct conflict. The new nations were anxious to develop their industrial resources, and they attempted to do so under the shelter of high tariff walls. It was almost inevitable that the manufacturing interests in the new states should bring pressure to bear on their governments to safeguard profits. A similar process had been gradually extending within the British empire. South Africa, Canada, Australia, and New Zealand now enjoyed the right to impose a tariff on goods imported from England, and that right was extensively used. Economically speaking, the British empire was a number of separate nations.

The immediate crisis in Germany passed with surprising rapidity considering the magnitude of the upheaval. It had, as we have seen, tended to benefit rather than to harm the manufacturer, and the growing prosperity of German industry and commerce after it was over was regarded with ever-growing suspicion by the French. There followed the desperate French attempt, made in 1925, either to check this prosperity or to lay hands on some of its fruits by the occupation of the Ruhr district of Germany, on the grounds that Germany's treaty obligations were not being met. This step was a failure. The passive resistance of Germany was completely effective. The French government was at last compelled to realize that it must balance its own budget, not hope to secure funds from outside to meet its deficit; and so there followed in France also the inevitable inflation and partial repudiation of debts. Before the process was over the franc was worth only a fifth of its pre-War value.

Both England and the United States were eventually to follow some distance along the same path, but for the time being both fought manfully against the necessity, and for them the immediate post-War period was one of deflation. With this added to the loss of many of her most wealthy markets, England was naturally faced with a serious situation, which is mirrored in her unemployment figures for the period. The average number registered as unemployed at the unemployment exchanges during 1921 was 2,130,000, and though this was a peak figure there were only two months during the next seven years, April 1926 and May 1927, when the figures were below a million. In America the initial difficulties of deflation were more rapidly overcome and changes brought by the War on the whole tended to favour American recovery.

To the other disturbing factors in the economic life of the post-War period there were added labour troubles. In Russia the final result of War-time social troubles had been the collapse of the old social order. One motive which made the governing classes in Russia ready to go to war in 1914 was the belief that a great military victory might heal the rift between the classes; that a national war might mean a truce in the class war. Their calculations had been upset by the length of the struggle, for Russia had none of the immense industrial resources which made it possible for the western powers to carry on so long. Disorganization, defeat, and famine led to a revolution which for a time established a Liberal government, but its efforts to reorganize the Russian fighting forces failed and it was rapidly succeeded by the extremist or Bolshevik party. The leaders of this party believed that the so-called 'bourgeois' mentality must be destroyed if the workers' revolution was to succeed, and that religion, which might be exploited by the governing classes to keep the poor contented, must be stamped out in order that the worker might fully realize his rights. These were believed to be necessary preliminaries to the building-up of an economic system based on the ownership of the means of production by the community, and a political system based on the 'dictatorship of the proletariat'. The early stages of the revolution were as horrible as all such revolutions inevitably are, and it was natural that they should inspire fear in the nations of western Europe. In some countries workers' revolutions actually broke out—in Hungary, Italy, and above all in Germany. A moderate Socialist government was in power in Germany in the months following the Armistice, but was not in fact strong enough to put any large-scale plans for socialization into practice, and feared that if such an attempt was made it might lead to the revolutionaries obtaining power. The new constitution evolved was therefore Liberal, not Socialist, and each new election showed a steady increase in the size of the middle class or 'bourgeois' parties. The prestige of German governments declined as they had to accept more and more humiliations from the victorious powers, who were still hoping to discover a means of reaping the harvest of victory by 'squeezing Germany', as the gruesome phrase ran, 'till the pips squeak'. As late as 1920 a dangerous Communist insurrection took place in the Ruhr, occasioned by the discontent felt in extreme Socialist circles with the failure of the government to put Socialism into practice—and as early as 1923 the anti-Socialist forces of Hitler, which were ultimately to be called Nazi, made their first attempt to secure power by means of a political and military *coup*. The next ten years in Germany are the history of the gradual political decline of Socialism and the meteoric rise of Nazism, so that the change was finally effected without the necessity of sudden military action.

In England, also, there had been discontent among the workers during the War, and when most other countries had succeeded in returning to fairly normal conditions, England was still in difficulties with high unemployment figures. These difficulties were enhanced by the Treasury policy of 'deflation', the object of which was to return to the gold standard at pre-War parity with the United States. Deflation in England increased the burden of the national debt, for it meant that the money which had to be found to pay interest and redeem the principal was more valuable in terms of goods (and therefore more difficult to come by) than the money which had originally been lent. Post-War unemployment in England was inevitable, but it was certainly aggravated by this policy of deflation, which meant high rates of taxation, high rates of interest on bank loans, and, after 1920, falling prices, always serious obstacles to a trade revival. It is true that in almost every country which had fought in the War, 1919 was a year of widespread labour disturbances.[1] But in England the situation continued to be very serious during 1920 and 1921, and five years later the greatest concerted effort ever made by British labour was made in the so-called 'General Strike'. This was originally an attempt by organized labour to assist the miners, but both the government and also the Trades Union Council were evidently ready to face a trial of strength. The most remarkable feature of this strike was the general good humour with which it was conducted, and the ugly incidents which did occur here and there remained isolated incidents. Many of the strikers certainly believed that by holding up the transport and other services (e.g. the newspaper printing-works) of the country and thus reducing business to a complete standstill, they could compel the government to dictate a settlement of the great miners' strike, which was the origin of the dispute, on terms favourable to the miners. But the event proved that the general strike is an exceedingly difficult weapon to handle, for before the strike, which lasted nine days, was over, skeleton services had been provided and the public was able to travel and even had at its disposal newspapers giving somewhat garbled views of news. Though the strike was expensive, its effects were probably on the whole satisfactory. What at the time seemed to some to be a dangerous revolutionary movement proved in actuality a comparatively harmless trial of strength, without which industry must have taken much longer to return to normal conditions, and a remarkable feature about it was the small amount of bitterness which it left behind.

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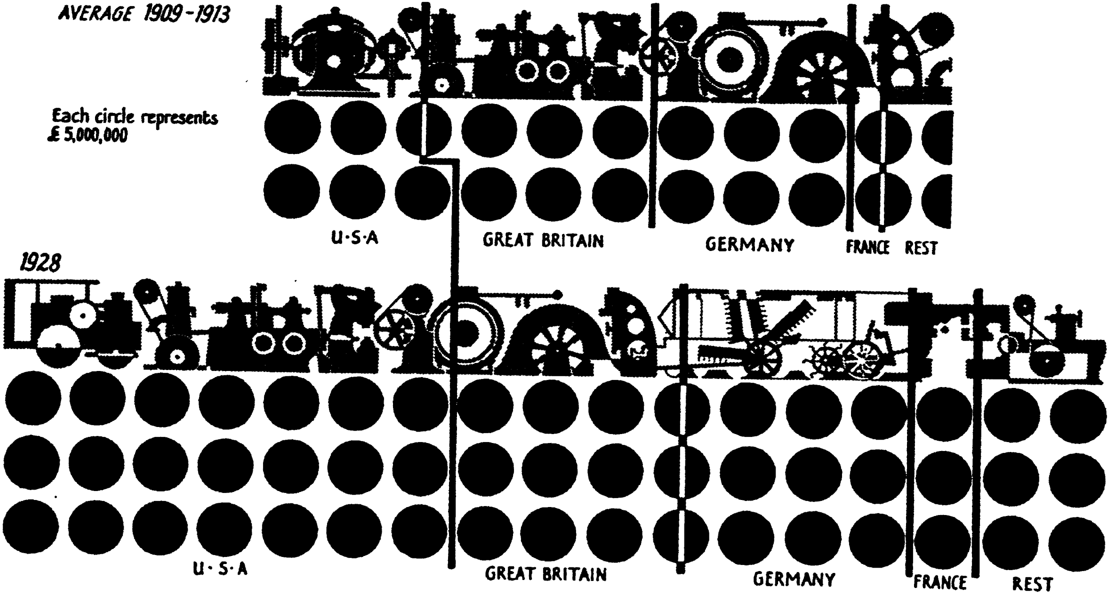
[1] It was a 'peak year' not only in England, but in the Dominions, on the Continent, and also in the U.S.A.: see the figures in the article 'Strike' in *Encyclopædia Britannica*, 14th ed.

But while England was thus eight years after the War faced with a million unemployed, high taxation, falling prices, and the loss of pre-War markets, elsewhere the tale by 1926 was very different. Psychological conditions, which are the most important conditions of all where the credit system is concerned, were favourable to a 'boom'. The War was at last over, and some of its most disastrous effects were beginning to be repaired. Money had been created on a vast scale, and, particularly in America, was available for any project that looked like paying. Technical invention had advanced with extraordinary rapidity during the War. The motor-car had come to be regarded as a necessity. Its break-downs were less frequent and the shapes it assumed were beginning to be less like a hansom cab and more like a powerful machine. Wireless telephony was an accomplished fact. Broadcasting was beginning. Aeroplanes attempted the Atlantic crossing, whereas a few years before they had barely succeeded in crossing the Channel. The motor-car needed all sorts of accessories, most important among which was a completely new road system. It is hardly surprising, therefore, that commerce expanded rapidly in most parts of the world.

We have seen above that the fall of the mark was in some ways an advantage to German industry. Americans, well aware of German technical skill, were ready to invest money in Germany. She had lost some of her industrial resources in Alsace and the Saar, and if she was to pay reparations by creating a favourable trade balance, plant must be reorganized. This was made possible by American capital, and the years following the collapse were thus a time of great activity. New and up-to-date machinery was installed in new buildings. The country began to wear an air of prosperity and began to pay its debts. But appearances were fallacious, for the money



XII. OUTPUT OF MACHINERY BEFORE THE WAR AND IN 1928

The length of the lines of pictures gives an approximate indication of the quantity of machinery produced. The purchasing power of gold had fallen by approximately one-third between 1913 and 1928.

with which these debts were paid was itself borrowed. Germany had been set an impossibly hard task, and as soon as the source from which she was borrowing ran dry, she was bound to suspend payments.

Before the American investors fully understood Germany's difficulties, other opportunities had offered for employing their money. In 1928 the United States was enjoying almost unexampled prosperity, thanks largely to the enormous recent developments in the home market. Here the War had left everybody wealthy, and wages, compared with European wage levels, were fantastically high. It seemed as though the opportunities which this market offered were inexhaustible. Everybody wanted an automobile. Everybody wanted a wireless set. Everybody wanted a picture house to patronize. Factories and more factories were built. Money was invested on a colossal scale, and rates of interest were high enough to attract European capital as well as American. It looked as though America had far outstripped Europe in the race for material prosperity. If prospective buyers had no money, money could be created for their convenience. The instalment system meant that for a very small initial payment they could get a very big wireless set. The extraordinary administrative scandals which marked President Harding's term of office did nothing, apparently, to shake confidence. The 'racket' went uncriticized, and administrative graft, of which every one was aware, went unpunished. The Federal laws against the sale of alcoholic liquor were disregarded and the supply of illicit drink became one of the most lucrative branches of commerce, winked at by police in most States, and apparently actually organized by the police in some. Nobody minded very much, for the pill was well coated with sugar. Universal wealth might well be expected to cover a multitude of sins. The climax was sensational speculation. This led to the withdrawal of American loans from Germany for investment at home. Over-investment on the New York stock exchange led to the sudden failure of confidence. The system was based on confidence—confidence that people who had paid the first instalment on their automobile would go on paying the rest, confidence that there would be buyers to buy the goods from the new factories, confidence that borrowers had the capacity to pay their debts. Once this confidence was lost, it was the beginning of the end.

Post-War prosperity rested on an unstable basis. The Peace treaties created many economic difficulties and solved none. War payments interrupted the natural currents of trade. Tariff barriers were more numerous and higher than they had been before the War; and manufacturers in countries where there was a protected market paid their overhead costs by sales in that market at high prices, and seeing that once these had been met it paid them to manufacture a surplus and sell it elsewhere for very low prices, they did so, 'dumping' the surplus wherever there were no tariffs to keep it out. This meant cheap foreign goods, but it meant also competition that could not be met except by application of tariffs.

Meanwhile, the amount produced of some raw materials, such as cotton, was already more than could be absorbed. Manufactures also were being produced by 1928 in far greater quantities than any one could afford to buy, and one weakness of the system under which we live lies precisely in this fact. People may need goods that other people are ready and anxious to produce, but before a need can be economically effective it has to have money behind it. There is not enough money to go round, and if there were, we have not discovered the means of getting it round. There is plenty of work that needs doing, and plenty of people to do it. But the present system works in such a way that the man who produces for an uneconomic demand is eliminated, unless he has means of his own or unless he secures a subsidy from the State or an institution. Much can be done to create credit, but there comes a time when customers are buying too many things on the instalment system for them to be able to take on anything else. Millions of customers had reached that point in America in 1928, but thousands of factories were producing more goods in the hope that they would go on buying for ever.

Finance is the nervous system of industry. It is more immediately sensitive than manufacture to economic changes; and a slump in production generally begins with a crisis in the money market. This is not surprising, seeing that industry is financed on credit, and that a monetary crisis in the nature of things means that credit will be impaired. The cause of the recurrent financial crises of modern times has generally been over-investment. The investing public's mind moves slowly. It is not originally easily convinced, but once convinced, it is not easily disillusioned. In 1846 people who knew that one railway was a success thought that every other railway would be a success too. In 1928 the possibilities were more miscellaneous, but people believed in them just as extravagantly. The first signs of impending disaster came in England in the spring of 1929 with the failure of some of the new companies, and throughout the summer the values of almost every form of industrial security were declining. Then in September came admissions of irregularities which had occurred in the affairs of various companies with which Hatry, one of the leading figures in the City, had been connected. These involved enormous liabilities, though they were liabilities carried for the most part by banks and stockbroking firms, not by the investing public. But though the problems connected with the affair were solved, so far as they could be solved, rapidly, its scale was large enough to cause inevitable lack of confidence and to aggravate the slump in securities which had already begun.

It was now that confidence was suddenly lost in the American market. The fall in the value of securities in a single month was catastrophic. It was estimated at the time that between 9 September (the Hatry difficulties became known on the 20th) and 13 November, security holders lost in the New York market £8,000 million, a loss greater than the sum which the War had cost the United States. The effects of this crash were felt all over the world. Investors from many countries had been taking part in the scramble for wealth in the United States, and the crash affected indeed not merely the investing public, but the whole commercial system. The disastrous fall in prices in the following year was a symptom of this. It was greatest in those raw materials for which the market was international. The price of rubber during the course of the year 1930 was approximately halved. So was that of cotton, and wool prices were not much better. The price of most kinds of grain fell to an almost comparable extent, and over the entire range of wholesale prices there was a steady downward movement. The reaction on business was immediate. Depression settled down over the markets of the world. Unemployment figures rose. The fight over wage reductions began again.

II. THE GOLD STANDARD AND INTERNATIONAL TRADE

An obvious difference between the pre-War and post-War world is the difference in money. The rich man in pre-War days might carry a note-case for his £5 notes, but gold sovereigns were among the coins in his pocket. And a relatively small proportion even of the notes he used were 'fiduciary' in character, most of the Bank of England's note issue having a backing of gold. Now, however, the gold sovereign has disappeared. The note issue, which includes £1 and 10*s.* notes, has expanded to an enormous degree, and the notes issued are inconvertible. The Bank of England has a reserve of gold, but sovereigns can no longer be obtained in exchange for notes. This has virtually been the case since 1914, but two great changes have taken place during that time. The first was Mr. Churchill's decision to return to the gold standard in 1925; the second, the decision of the National government to go off the gold standard in 1931.

Though it is possible to declare notes 'legal tender' within the boundaries over which any government is supreme, this clearly cannot have any effect outside those boundaries, and foreign sellers, if they are offered Bank of England notes in exchange for their goods, may refuse to sell. Most foreign imports are paid for not in money, but in bills. An English manufacturer, selling machinery in the Argentine, is given a bill on the Argentine buyer of his machinery, say for £5,000. He then passes the bill on to a bill-broker, who offers the bill for sale. It is not likely to be difficult to sell it, seeing that large quantities of grain and meat come to London from the Argentine, and the buyers of meat have to pay somehow for these cargoes. One of them will buy the bill for approximately its value from the bill-broker, and the bill will be sent out to his creditor in the Argentine. He in his turn will then collect the money from his fellow-countryman whose original purchase is represented by the bill, and so the transaction will be settled without a transfer of money from one country to the other. The process is often more complicated, as the trade may be three-cornered; parties involved may be Great Britain selling to the Argentine, the Argentine selling to the United States of America, and the United States of America selling to Britain, each country paying its debts, not by a direct sale, but by a sale to a creditor of its own creditors. The process, however, will be substantially the same, except that the bills will have longer journeys to travel. London will sell Argentine bills to New York, and New York merchants who have bought from the Argentine will buy these bills to pay their debts. The object of this apparently complicated system is to avoid the necessity of sending gold by sea. To send notes would be useless, since English notes in the Argentine would be acceptable to no one for the ordinary course of buying and selling, while sending gold is an expensive proceeding, involving packing, transport under guard, and high insurance premiums.

But the system will not always work. Sometimes the debts of a country's merchants are not balanced by the amounts abroad to their credit. When this is so, the country of the debtor merchants is said to have an unfavourable trade balance. Sometimes this balance, though apparently unfavourable, is not so in reality, owing to various items called 'invisible'. England has had almost always an apparently unfavourable or adverse balance of trade. She does not sell abroad as much as she buys. But the actual balance generally has been in her favour, since foreigners have to pay English firms for services of various kinds—for the services of British shipping which has transported their cargoes from one port to another, for the services of British banking or insurance firms, in interest on British capital lent in the past to enable them to buy machinery, and so forth. Yet even including all these items, the balance may be unfavourable, and there may not be enough foreign bills available to pay for the goods bought by British merchants. One of two things will then happen. The debt may be left in the form of a loan, or alternatively money may be shipped abroad to pay it. The first of these methods is one which is often employed in dealings between highly industrial countries and others less highly developed industrially. In the years when America and the Dominions were being opened up, their balance of trade was constantly unfavourable; but the goods supplied by British merchants were paid for by capital raised in London, on which interest was thereafter paid to the shareholders by the buyers. The second, the export of gold, is the more obvious method to be adopted in ordinary cases.

In the period before the War, and for a short time after 1925, gold was available for this purpose, and the banks were bound to supply it, on demand, in exchange for bank credits of any kind, so that the merchant who found that he had debts abroad which he could not pay by buying foreign bills, withdrew in the form of gold the sum required to pay the debt. If there were a number of merchants in his plight, all anxious to repay creditors abroad, and if at the same time there were only a few foreign bills available, those bills would be at a premium, that is to say, the debtor merchants would be prepared to give rather more than their face value for them, in order to save themselves the trouble and expense of transporting gold. Above a certain point, however, it did not pay them to bid for the bills, as they found it cheaper to export gold.

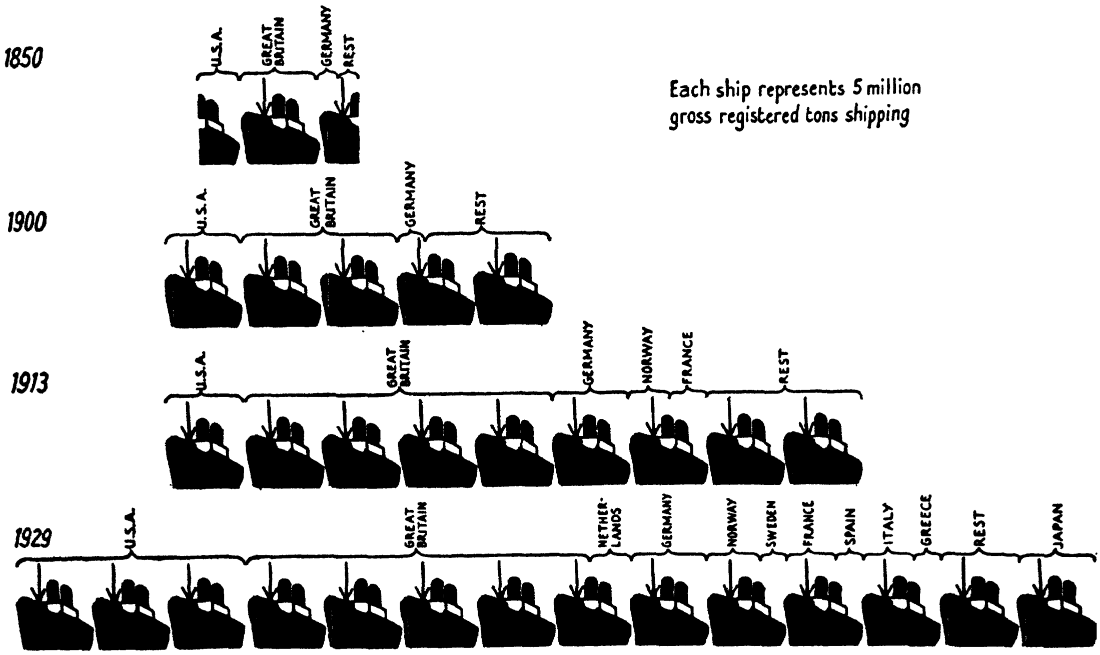
While most countries were on the gold standard, therefore—that is to say, while gold was available for export if necessary to pay debts—the rates of exchange between one country and others also on the gold standard might fluctuate slightly, but only within certain definite limits. There was reached quite quickly a point at which it paid better, instead of giving higher prices for foreign money or foreign bills, to export gold. When a country goes off the gold standard, however, there is no such check. It is no longer possible (as an alternative to buying foreign bills) to export gold, so that the price of foreign bills and of foreign money in general may soar indefinitely high.

In the gold-standard period, therefore, the volume of foreign trade was liable to have a direct effect on the amount of money available. It was believed that the gold standard worked as a natural corrective to the balance of trade. Where a country had an unfavourable trade balance it had to export gold. This left it with less money than it had before—for in a large number of countries gold coins were actually in circulation and the amount of bank money stood in relation to the amount of gold held by the banks; and by a natural process, when there is less money its value increases—that is to say, more goods are obtainable for it, or in other words, prices go down. When a country had to export gold, therefore, prices went down; and as goods in that country became cheaper, it became profitable for other countries to buy there instead of elsewhere. Thus the balance of trade automatically readjusted itself.

This may have been true in pre-War conditions. In post-War conditions it was certainly not true. Many factors have upset it, among which one of major importance was War debts. Great Britain alone owed to the United States, in payment for moneys borrowed during the War, a sum which, according to the repayment agreement, was to total (spread over a number of years) 11,106,000,000 dollars. This is over £2,000 million. All the gold in England would pay something less than a tenth of this debt. The huge sums owed on account of reparations by Germany to the Allies and of war debts by the Allies to each other and to the United States upset the working of the gold-standard system. Where trade debts only were involved, it might work satisfactorily, but gigantic debts which were not commercial at all completely upset its principle. The difficulties were complicated further by the growth of trade barriers in the form of tariffs. It might have been possible to pay War debts abroad as other debts had generally been paid—namely, by the export of goods. But if a high tariff was erected against goods from abroad in the creditor countries (and a high tariff had been thus erected in the principal creditor country, the United States of America) payment by that means was not feasible.

Difficulties caused by the payment of these non-commercial debts were the chief reason why England abandoned the gold standard, after an experimental period after the War (1925–31) during which she had returned to it. There were other contributory factors. Thanks to the depression in world trade, she found that her real balance of trade, which hitherto had been almost invariably favourable, had become unfavourable, and when foreigners whose money was deposited in London for one reason or another realized this, they began to withdraw their money in the form of gold, fearing that England might have to export great sums and leave herself bankrupt. There were various other contributory causes, important at the time, but from a general standpoint less significant. The main reason was that the great debts created by the War made it impossible for the gold standard to work in its old way.

The interaction between politics and economics is never closer than in questions of international trade. Not England only, but all countries have found difficulties during the past six years in paying their debts abroad. Internal debts can be easily settled, for we have long since abandoned the idea that gold is the only form of money, and the payment of internal debts means not a transfer of gold but a transfer of claims to wealth—a book-keeping transaction. And as the transport of goods between different regions in the same country is subject to no prohibitions, so the trans-



Each ship represents 5 million gross registered tons shipping

XIII. THE WORLD'S MERCHANT MARINE

fer of claims to them is an operation which involves no difficulty. But with international debts it is a different matter. The transfer of goods across any international boundary is subject to heavy duties, sometimes to absolute prohibitions, and the transfer of claims to goods is meaningless if the claims cannot be realized. So arises the demand for gold payment, but as the supply of gold is quite inadequate to finance them, it is impossible to make gold payments, and international trade is brought to a standstill.

From this situation has arisen a growing demand for the 'right' to colonies in which manufacturing countries may be able to buy raw materials with their own currency. Post-War nationalism has in fact proved economically unworkable, and 'new' manufacturing countries like Italy and Japan have, therefore, been endeavouring to create new and larger economic units. President Wilson's nationalism is being converted into imperialism through force of circumstances, and by a curious irony the process is most obvious in those 'totalitarian' states where the importance of the 'nation' is most emphasized in theory. It looks as though units of the type which Wilson regarded as unreal and unjustifiable—like the old Austrian Empire with its medley of nationalities—are bound to be the economic units of the not very distant future. But the process by which this comes about may well be one of grave political difficulty.

III. THE EFFECT OF THE BANKS' CONTROL OF CREDIT

One of the most important changes which have come about during the last half-century is the growth of what might be called 'international sensitiveness' in the financial world. We have seen already something of the part played by the gold standard in the financing of international trade; but this sensitiveness is something more than a trade relationship between one country and another. For all the principal commodities of commerce there is a world market, and what happens to cotton prices in New York is bound to happen almost instantly to cotton prices in London, because the world's cotton is put up for sale in a world market, and not exclusively in the market of any town, any country, or even any continent. Similarly, the market for some forms of stocks and shares, if not quite world-wide, is very extensive, and embraces all those countries which are said to enjoy Western civilization. The market for money also is world-wide, and here, too, what happens in one country often affects very intimately what happens in another.

It has been seen that money is not only, nor even principally, gold. Money is credit, and it is wanted in large quantities mainly by industry and commerce for the financing of capital expenditure and day-to-day operations, and by governments for the financing of their work of all kinds, in so far as its cost cannot be met out of taxation. For these loans of credit they have to pay interest, the governments probably at a lower rate than that paid by the commercial concerns, because the security they can offer is generally better.

Those who have credit to lend may prefer to do so in their own country. They may have the feeling that the money will be safer there under their own eyes than elsewhere out of their reach. Or there will be occasions when they feel that it is safer to lend abroad. In the years following the War stringent regulations had to be made to prevent the 'flight of capital' from Germany. People who had money in Germany feared a collapse of the economic system, and believed that it would be wise, therefore, to lend money abroad, where conditions were more stable. This was naturally a serious matter for Germany, since it meant that the credit in Germany became scarcer and dearer, and industry and commerce laboured under corresponding difficulties. Or again, there will be occasions when those with money to lend—especially the professional financiers—will decide where to lend it, whether at home or abroad, simply by discovering where they can get the best return, that is, the largest rate of interest combined with reasonable security, for their money. It will be of importance to these lenders to know what rates of interest are prevailing in any particular financial centre before they decide how to use their money.

The bank rate, therefore, will have international, as well as national, significance. For the bank rate can be artificially raised or lowered at the discretion of the governors of the central bank—in England, the Bank of England. They can charge a high rate or a low rate of interest for discounting bills, as they choose. Their decision may be governed by internal or by external considerations, or simply by the supply of credit available. They may, for example, think that money is being borrowed and used for unsatisfactory purposes, perhaps for unwarrantable speculation. In that case they will charge a high rate of interest, in order to discourage borrowing by making loans expensive. They may think that industry needs all the help that it can get, perhaps that wide reconstruction of industrial plant is desirable. If so, they will charge a low rate of interest to encourage borrowers.[1] They may think that there is too much money in circulation, in other words, that too much credit has been created. If this has been done, the value of money will have fallen, that is to say, prices will have risen; and by making borrowing more difficult, the bankers will be able to reduce the amount of money in circulation, and thus bring down prices. This process is called 'deflation'; it is a process always regarded with apprehension by industrial and commercial concerns, because, if their operations are conducted during a period of falling prices, it means that they do not get at the end of the transaction the sum which they might have expected at the beginning. For example, if prices have fallen while the manufacturer of woollen goods is making them up out of the raw materials he has bought, he may hardly be able to cover his costs. The opposite process, that of creating a larger body of credit, is as popular with the manufacturer as deflation is unpopular, for it means that by the sale of the finished article he makes a disproportionate profit over the costs of his raw materials. These are some of the material considerations that may influence the raising or lowering of the bank rate. International questions also may decide the issue. The banker may be anxious about the drain of funds from his country to others. If so, his solution is to put up his bank rate, for if he, the central authority on which all other banks depend, puts up his rate of interest for loans, they will do the same, and the value of money throughout the country will move correspondingly; whereas before it was worth only 3 or 4 per cent. per annum, now his action may make it worth 6 or 7 per cent. By doing this, he can attract foreign money to his own country. The foreigner will be persuaded to invest abroad, because an abnormally high return is being offered for his money. In Berlin, at times of acute crisis since the War, the bank rate has soared above 12 per cent. The object of this has been to keep money in Berlin, and, if possible, attract foreign money thither. But such a course has acute disadvantages as well as advantages. It means that trade is practically strangled. It can hardly hope to maintain itself when it has to pay such rates of interest for what it borrows. So, while credit may be maintained abroad, it is perhaps at a cost of acute unemployment and distress at home. Something rather similar happened when England returned to the gold standard in 1925. The price level of English goods had to be lowered to make them correspond with prices in the world market. In order to do this, resort had to be made to a policy of deflation, and there followed as a necessary result a period of unemployment and of great industrial difficulty.

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[1] The fact should be remembered that the banker is working for profit as much as is the ordinary retail merchant. When it is said, therefore, that the banker 'thinks that money is being used for unsatisfactory purposes, perhaps for unwarrantable speculation', that means that he feels his loans are being used in a way which makes their repayment problematical.

The banker in a gold-standard country is thus faced with a serious dilemma. In order that the general principles of the gold standard may be allowed to work, it may be necessary for him, if his country is faced with an adverse trade balance, to 'deflate'. But he cannot do this without both damaging seriously the industry of his country, and also impairing his own chief source of income—his loans to customers. And whatever he does, he may be sure that the effects of his action will be almost world-wide. In the years immediately following the War, Americans lent large sums of money to Europe. Then came boom years in the United States, and American capital was attracted back, with considerable quantities of European capital also, to New York. Two results followed. The immediate result was that Europe, and especially Germany, was drained of the resources which had enabled her to carry on during the post-War period. The second was that when a crisis developed on the American stock exchange, European as well as American capital was involved.

The first recognition of the widespread nature of these problems has been in the founding of the Bank of International Settlements. It is true that the big banks all have agents or subsidiaries abroad; but these subsidiaries can have no say in the direction of international policy. The Bank of International Settlements was founded as a result of the report of one of the expert committees on reparations. Its function originally was to manage the transfer of amounts due from Germany to other countries in such a way that as little harm as possible was done either to the debtors or the creditors by the transaction. From what has already been said, it should be clear that the transfer of large sums of money is a very delicate operation, and one which has intricate effects on price levels, and on a thousand other things, and that the receipt of an immense sum of money may not be entirely to the advantage of the recipient, as America's hoard of gold, accumulated since the War, has proved. It is possible that the Bank of International Settlements may in future come to play a very much larger part in the world's credit structure, and may make possible a co-ordination between the financiers of different countries which has never hitherto existed, but like all other international organizations, political and economic, it is likely to find itself opposed by the powerful nationalist tendency, the growth of which has been one of the features of post-War years.

During the last generation we have gradually advanced farther and farther down the road on which society first entered when the invention of credit began to be exploited. But it looks as though we have now passed almost unnoticed to a different path. For whereas up to recent years the monetary system has always been based on gold, now this is no longer so except with a very few countries whose economic position becomes daily more precarious. Gold has proved itself an inadequate monetary instrument for the modern world, which can create wealth far more rapidly than it can dig gold from its mines to pay for it. In one vast region, Soviet Russia, industrial and agricultural activity has freed itself definitely from golden fetters. Russia produces, or rather tries to produce, what she needs, and she prints money to enable the people to buy what is thus produced. It is clear enough that the experimental period during which this system is being worked out has been one of extreme hardship. But Russia does not really stand alone. In England and America and a score of other countries, the currency is 'controlled' and has no real permanent relation to gold whatever. The difference is that in these other countries the control is not exercised by the Government, but by the bankers—a system which has its great advantages, in that they have a traditional financial experience on which to draw, and its great disadvantage, in that they represent one class, or one element, in the State. But that this severance from the bondage of gold is to be one of the factors in the freedom of the future is certain. The 'gold bloc' countries are bringing up the rear of civilization, and unless they free themselves from their burden there is serious danger that they will be dragged back into anarchy. That the new system is fraught with difficulties it would be impossible to deny; and, at present, it is unfortunately only a local system, so that international trade has actually been reduced in many instances to a primitive system of barter. That is its greatest difficulty, but there is no reason to believe that, given more stable political conditions, the difficulty cannot be surmounted. The economic crisis must be the prelude to a new financial order.

IV. DEPRESSION AND SOCIETY

It is scarcely surprising that a recrudescence of social and political difficulties should have followed the slump. Out of the chaos created by the War an alternative to the capitalist system had been evolved, and whereas in the boom years America and the capitalist countries of Europe could claim that an exchange of their prosperity for the famine conditions known to prevail in Russia would be absurd, such an argument became less weighty as the slump grew more and more extensive. For Russia was engaged on carrying out the first of the gigantic 'five-year' plans for the introduction of industrial method. In Russia demand did not have to be backed with money to be effective. If the authorities decided that a scheme would be carried out, it was carried out, and such money as was necessary to finance it was created by the State. The working classes in Germany began to feel that Socialism was a real and possible alternative, and behind the resistance to wage reductions lay the consciousness that an alternative (which incidentally was often viewed through unwarrantably rosy spectacles) had been evolved. The profoundity of the depression lent plausibility to the belief that the capitalist system was doomed.

Those who thought this probably under-estimated the degree of the changes which it was already undergoing. Since the War, business men even in England, had come to take for granted and to demand control in various forms which had been regarded with acute suspicion in pre-War days. Many factors had tended to reduce the disparity between large and small incomes, and employees in industry were becoming increasingly conscious of the force of international competition and tended to identify their interest with that of their employer rather than that of the employee in other countries. It seemed obvious enough that the low wages of the Japanese factory-hand must be in part the explanation of the success of Japanese competition, though the experts all said that this was not necessarily so, pointing as proof to the vast American international trade in cars, and to the high wages which the employees in this industry received.

Nowhere was the slump more disastrous than in Germany, whose difficulties had begun with the withdrawal of American capital. She was more dependent than almost any other nation on a favourable balance of trade, but country after country raised tariffs against her goods as it found that home-produced goods were being under-sold by them. Unemployment reached almost unimagined heights. In 1932 the figure was never below 5·2 millions, and by the end of the year was over 6 millions. Parliamentary government became impossible in such circumstances and had virtually been abandoned many months before the Nazis came into power. Political animosities ran so high that in a period of under two months during the summer of 1932, seventy-two deaths took place in political quarrels in the state of Prussia alone. The elections in November 1932 showed that of the two alternative extreme policies before Germany, National Socialism and Communism, the former had virtually triumphed. Its 11,740,000 voters were twice the number which had voted for Communism. During the following year Hitler was invited by the President to form a government, and from that time onwards became himself the supreme authority in the German State. His political advance had been made possible partly by the financial support of German industrialists, who saw in him the only possible counterweight to Communism. At the same time many who voted for him did so because they believed that he alone was ready to break the power of big business in Germany and free Germany from the dictates of the international financier. Each of these influences has had an important bearing on his policy, though they are necessarily incompatible. But by focusing attention on the external problems of Germany he has been able to avoid the contradiction.

The national character of the Nazi movement in Germany is partly due to the circumstance that Germany had to face ten years' humiliation, which in addition to its psychological effects produced grave economic difficulties. But German nationalism is the extreme form of a sentiment which is prevalent to a much greater degree than before the War throughout Europe. The Peace Treaty, which created new national divisions, is partly responsible, but it has been greatly assisted by new methods of communication, such as wireless, and by the economic interests which the new nations have called into being. The conditions when world free trade was a possibility no longer exist. Industrialism is no longer confined to one region of the world. Almost every region of the world is already capable of manufacturing many of the goods it needs, and if it is not yet capable it is anxious to develop the capacity. These local interests are bound to demand protection if they are going to survive, and the desire for industrial development outweighs the disadvantages of high prices. Even England, the last stronghold of free trade, has capitulated, partly in the interests of manufacturers who were being undersold by German or American producers, partly in the interests of the farmer. The public pays in higher prices, but it gains corresponding social advantages. And because the boom never reached in England the extravagant dimensions it attained in America, recovery has been more rapid. Six years after the slump, however, world trade was only a fraction of what it was during the boom period,[1] and the signs of recovery were not conspicuous. The governments of Western Europe and America were prepared to spend on war materials, but only in America had it become part of the government's policy to spend correspondingly large sums on 'public works' with a view to stimulating production. It is too early yet to say whether the solution adopted in America (where at the same time as money was being spent on public

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[1] The figures for world trade are as follows:

Gold value of world trade in 1929 . . .	$68,606 million
,, ,, ,, ,, ,, ,, 1933 . . .	$24,224 million
,, ,, ,, ,, ,, ,, 1934 . . .	$23,375 million.

The figures give an unduly pessimistic view, owing to the fall in prices. The amount of world trade has not diminished in bulk as much as it has diminished in gold value.

works, artificial scarcity was created by the destruction of foodstuffs and raw materials) has succeeded. In England the National government's policy was traditional in character. Soon after it was formed, a breach with tradition was indeed forced upon it when the country went off the gold standard. This was its most successful economic measure, and this made it possible for English manufactures to compete for markets which they could not hope to enter during the period of deflation. As compared with the 'gold bloc' countries, which resisted any devaluation of their currency in terms of gold throughout the time of the slump, this advantage was conspicuous, and the United States followed the same line in order to obtain them. Apart from this, by introducing measures traditionally connected with deflation, such as wage cuts and the abandoning of projected public works, it checked any inflationary tendencies, and, as the more advanced economists would claim, put an unnecessary check on the progress of recovery. It relied on the recrudescence of economic demand to stimulate production.

Whether this reliance on traditional economic stimulus will ever make the most of our present industrial capacity is still a controversial question. There are still those who deny that artificial interference with the system on any large scale can be successful. To others such attempts represent the beginning of the period when we will learn to control the great machine of production which we have created, and at the mercy of which our civilization at present lies. They would claim that if the National Socialism of Germany represents an attempt to control economics in the interests of society it is a valuable political experiment, though they would question whether the repressive methods which it adopted are necessary for the purpose. And they might well suggest that we have lost a due sense of proportion; that it would be absurd not to use the world's capacities to produce in order to meet her needs, but at the same time man does not live by bread alone, and there are needs which the most efficient system of production will never supply.

APPENDIX I

Growth of Commerce during the Eighteenth Century

(Reprinted from Slater, *Growth of Modern England* (1932), pp. 596–7)

Year or average of years named	*Tonnage of ships cleared*			*Value of cargoes exported*
	English	*Foreign*	*Total*	£
1663–9[1]	95,266	47,634	142,900	2,043,043
1688[2]	190,533	95,267	285,800	4,086,087
1697[3]	144,264	100,524	244,788	3,525,907
1700–2[4]	273,693	43,635	317,328	6,045,432
1709[5]	243,693	45,625	289,318	5,913,357
1713–15[6]	421,431	26,573	448,004	7,696,573
1736–8[7]	476,941	26,627	503,568	9,993,232
1739–41[8]	384,191	87,260	471,451	8,870,499
1749–51[9]	609,798	51,386	661,184	12,599,112
1762[10]	480,444	120,126	600,570	13,545,171
1764[11]	583,934	74,800	658,734	16,512,404
1771[12]	773,390	63,352	836,922	17,161,147
1781[13]	547,953	163,410	711,363	10,569,187
1792[14]	1,396,003	169,151	1,565,154	23,674,316

[1] Naval war with Holland from Feb. 1665 to July 1667.

[2] Last year of the external peace since 1667.

[3] Last year of the war with France since 1689.

[4] Two peace years and one war year. War of Spanish Succession began May 1702.

[5] Height of War of Spanish Succession; year of Battle of Malplaquet.

[6] First three years of peace after Treaty of Utrecht. During the War of Spanish Succession the adverse effect of war was considerably mitigated by the Methuen Treaty and alliance with Portugal.

[7] Last three years of peace since 1720.

[8] Spanish War (Jenkins' Ear).

[9] Three years of peace following War of Austrian Succession.

[10] Last complete year of Seven Years' War.

[11] First complete peace year after Peace of Paris.

[12] Year of maximum export trade during the interval between the Seven Years' War and the War of American Independence. The following year shows a greater tonnage of vessels cleared (890,711) but a smaller value of exports (£16,159,143).

[13] Year of maximum interference with shipping by French and American privateers during the War of American Independence.

[14] Last year of peace before the outbreak of war with French Republic.

The effect of war in causing cargoes to be diverted to foreign shipping is apparent.

APPENDIX II

(See above, p. 378)

Weekly Domestic Consumption of Bread, Meat, Fats, and Sugar per Head per Week in Great Britain, Germany, and Holland. Pre-War and 1918.

Foodstuff	*Great Britain*		*Germany*		*Holland*	
	Pre-War	*1918*	*Pre-War*	*1918*	*Pre-War*	*1918*
	lb.	lb.	lb.	lb.	lb.	lb.
Bread and flour .	6·12	6·57	6·44	4·06	7·25	3·06
Meat . . .	2·50	1·54	2·25	0·49	1·50	0·44
Sugar . . .	. .	0·50	. .	0·33	. .	0·52
Fats . . .	0·51	0·45	0·56	0·15	0·70	0·37

(Reprinted from article 'War Control of Food', *Encyl. Britann.*, 14th ed.)

APPENDIX III

(Cf. Plate 6 and note.)

(*a*) *Manchester City Expenditure (Estimated) 1935–6, with Estimated Income*

(Based on the tables on pp. 252, 253 of *How Manchester is Managed*, 1935.)

Estimated Expenditure	£
Education . .	1,970,935
Health Services .	1,410,204
Public Assistance .	1,199,649
Roads . . .	758,318
Protection . .	722,728
Housing . . .	434,282
Administration .	245,601
Miscellaneous . .	62,537

Estimated Income	£
General Rate[1] . .	4,479,642
Trading . . .	23,500
Government Grants	
Education . .	897,758
Housing . . .	316,248
Protection . .	255,725
General Exchequer Grant and Local Taxation Licences .	736,056
Miscellaneous Grants .	35,394
Balance . . .	59,931

[1] The rate levied 1935–6 was 15*s*. 2*d*. in the £.

(*b*) *Utility Supply Departments, Manchester, Year Ended March 31st 1935*

Abstract from Accounts

	Electricity	*Gas*	*Markets*	*Transport*	*Waterworks*	*Total*
CAPITAL ACCOUNTS	£	£	£	£	£	£
Net outlay on capital account during the year . . .	396,311	26,992	8,129	67,335	231,569	730,336
Total net outlay to March 31st 1935 .	12,871,754	6,268,600	974,306	5,087,399	12,597,153	37,799,212
Loan debt at March 31st 1935 . .	6,265,936	1,748,606	234,306	2,670,766	7,786,782	18,706,396
REVENUE ACCOUNTS.						
Total Income . .	1,955,691	1,263,971	162,753	2,304,587	834,352	6,521,354
*Surplus, after payment of Interest Charges on Loans, Liquidation of Debt, Income-tax, &c.	419,409	50,499	41,096	132,655	64,305	707,964

* This surplus was appropriated to Works Extension, Reserve Fund, &c. It will be seen that each of the undertakings is self-supporting. For a full summary of their accounts, see *How Manchester is Managed*, 1935, p. 255.

APPENDIX IV

Over-production

(See pp. 295, 390.)

A. The rise of the production of foodstuffs and raw materials between 1913 and 1929 compared with the rise of population (figures from Cole, *Intelligent Man's Guide through World Chaos*, p. 28).

	Rise in	
	Production Per cent.	*Population* Per cent.
World	30	11
Europe only . . .	20	9
North America only . .	33	20

B. Increase in production of certain foodstuffs and raw materials 1860–1929. (Figures from *Gesellschaft und Wirtschaft*). In milliards of kilos—i.e. each unit equals 1,000,000,000 kilos.

	Average Production Period						
	1860–9	*1870–9*	*1880–9*	*1890–9*	*1900–13*	*1914–19*	*1929*
Breadstuffs .	90	100	111	122	149	142	167
Rice . .	71	77	82	90	94	112	114
Potatoes . .	74	83	93	107	140	122	177
Sugar . .	(figures not available)	3·9	5·8	8·7	14·1	16·8	25·3
Mineral Oil .	negligible	1·6	5·4	13·7 (1895–9)	35·4	64	171
Rubber . .	negligible			45	75	297	850

C. Fluctuations in production of iron and steel, 1913, 1929–34. (Figures from *Statesman's Year Book*, 1931, 1935.) World production in thousands of tons.

	1913	*1929*	*1930*	*1932*	*1933*	*1934*
Iron .	77,714	98,080	79,670	39,244	49,294	62,250
Steel .	74,687	119,040	95,385	49,836	68,318	80,880

It is in 'producers' goods'—materials for machinery, &c.—that the most violent fluctuations occur, as these figures show. The demand for such goods is artificial, depending largely on business confidence. Thus for over-production in these industries movements of the 'trade cycle' are responsible (cf. p. 295). [N.B. War materials are an important element in this class of production and rearmament can absorb what would otherwise be over-production.]

D. On the other hand it is absurd to talk of over-production of necessities when there are large numbers of people in need of the supplies. [N.B., however, that though the figures for food production fluctuate to some extent with the movement of trade in general, the fluctuations are not nearly so considerable as those, e.g. in heavy industry.] Poverty has been to a large extent mitigated in the last generation, though by no means eliminated; cf. the following figures for 1913 and 1924, derived from an investigation carried out in Northampton, Warrington, Stanley, Reading, and Bolton (working class families only).

(Figures from *Has Poverty Diminished?*, Bowley and Hogg, 1925)

	1913	*1924 (corrected figure)*
Percentage of families above poverty line	88	92
,, ,, on ,, ,,	1	1½
,, ,, below ,, ,,	11	6½

The figures show a considerable decline in poverty, but they show also that the problem has not been solved; cf. the following from the article 'Poverty Line' in *Encycl. Britann.*, 14th ed. (1929), by B. S. Rowntree: 'At the same time the gravity of the position should not be under-estimated. Taking 6·5 per cent. of the working population as representing 4 per cent. of the total population, we had in 1924 in the British Isles practically 2,000,000 persons living below the standard necessary for the maintenance of mere physical efficiency. Moreover the number of individuals who at one time or other fall below the poverty line is much greater than those who fall below it at a given moment.' In many other countries the proportion below the poverty line is greater, though in some it is appreciably less—e.g. in the Dominions, and possibly Holland, Denmark, and Switzerland.

In view of this, over-production is evidently a misnomer. Production is not excessive, but misdirected. It is not, in fact, actually directed at all.

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